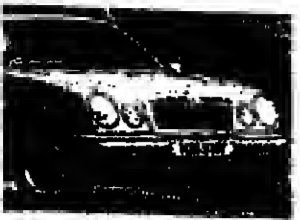


FINANCIAL TIMES



Noisy critics
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in assessing risk
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Celebrating the
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World Business Newspaper

THURSDAY APRIL 11 1996

Bundesbank chief outlines European currency plan

Bundesbank president Hans Tietmeyer (left) has revealed plans to avoid political and currency turbulence between members of the planned European monetary union and other European Union countries by taking currency change decisions away from individual countries. Mr Tietmeyer has suggested a "supranational authority" to oversee rates changes, relative to the single currency, of non-Euro members when their currencies come under pressure. Page 10 and Lex; Editorial Comment, Page 9; Euro has and out, Page 2

Suez, the French flagship industrial and financial holding group, said it was on course for a return to profitability this year after reporting losses of FF4.4bn (\$780m) for 1995. Page 11; Lex, Page 10

Airbus wins \$1.5bn Chinese order: Chinese prime minister Li Peng signed orders to buy up to \$1.5bn of Airbus aircraft, the first significant breakthrough for the European consortium in China, which has been dominated by Boeing of the US. Page 10

Turkish coalition urged to stop fighting: The head of Turkey's main business organisation called on the two parties in the new coalition government to stop arguing and deal with the country's mounting problems. Page 3

Nylon groups in Asian venture: BASF of Germany and DuPont of the US, two of the world's leading nylon manufacturers, have agreed a \$750m joint venture in Asia to manufacture 8 per cent of the world output of nylon raw materials. Page 12

Serbs win seat on aid talks: The Bosnian Serbs were given permission to attend an international donors' conference this weekend on aid for reconstruction. Page 3

Swedish industri, the Swedish mining and construction equipment manufacturer, launched a \$8.1-\$9bn (\$876m) takeover bid for Finnish engineering group Tampella Corporation. Page 12

German unemployment near record: German unemployment fell by 128,000 to 4.14m last month, from February's record 4.27m, prompting calls for the government to abandon budget plans and borrow more to boost the economy. Page 2

Republican convert misses nomination: US congressman Greg Laughlin, a Democrat who turned Republican, lost his bid for nomination to represent his new party in the 14th congressional district of Texas. Page 3

Russia reassures on nuclear arms: President Boris Yeltsin hinted Russia would adopt a conciliatory position when leaders of the G-7 industrial nations meet in Moscow next week to discuss nuclear security issues. Page 2

Japanese surplus falls 36%: Japan's current account surplus fell 36 per cent to ¥745.9bn (\$6.88bn) in February, compared with a year earlier. Page 5

US computer chip sales down: US semiconductor sales in North and South America fell about 3 per cent to \$4.16bn during March from February sales of \$4.29bn, signalling an industry-wide slowdown. Page 4

Brussels plans \$1.25bn jobs boost: The European Commission proposed an Ecu1bn (\$1.25bn) loan guarantee scheme for small businesses, aimed at creating about 30,000 jobs each year. Page 2

Hong Kong tensions prompt meeting: Hong Kong's chief secretary Anson Chan will meet China's top official responsible for the British territory next week over increasing tension concerning Hong Kong's handover to China next year. Page 5

Andreotti trial halted: A judge halted the seven-month-old trial in Palermo, Sicily, of Italian former prime minister Giulio Andreotti on Mafia charges and ordered a new trial to start next month.

Africa goes nuclear-free: Africa will join nuclear-free zones Latin America and the South Pacific when 53 African states and the nuclear powers sign the Treaty of Pelindaba in Cairo today.

Israeli soldier killed in attack: An Israeli soldier was killed and three were wounded in south Lebanon when Hizbollah fighters fired on their outpost with mortar bombs.

STOCK MARKET INDICES		GOLD	
New York Composite	5,886.01 (+6.50)	New York Composite	337.5 (297.1)
Dow Jones Ind. Av.	1,116.87 (+7.72)	London	336.2 (336.2)
NASDAQ Composite	2,883.94 (+12.23)	Close	336.2 (336.2)
S&P 500	230.02 (+2.78)	Open	336.2 (336.2)
FTSE 100	3,787.4 (+8.8)	High	336.2 (336.2)
Nikkei	21,791.7 (+47.53)	Low	336.2 (336.2)

US DOLLAR RATES		EURO DOLLAR RATES	
Federal Funds	5 1/4%	3-month	5.125%
3-month Treasury Bill	5.075%	6-month	5.125%
1-year Treasury Note	5.5%	9-month	5.125%
2-year Treasury Note	5.75%	12-month	5.125%
3-year Treasury Note	6.0%		
5-year Treasury Note	6.25%		
10-year Treasury Note	6.5%		
30-year Treasury Bond	6.75%		

OTHER RATES		STERLING	
UK 3-month bank	5 1/4%	DM	2,274.3 (2,278)
UK 10-year gov	6.5%	Yen	108.23
France 10-year gov	6.5%		
Germany 10-year gov	6.5%		
Japan 10-year gov	6.5%		

NORTH SEA OIL (Argus)	
Brent 15-day	\$22.50 (21.41)
Targa S oil	¥108.3

Doubts over Swiss bank merger

By Ian Rodger in London and Andrew Fisher in Frankfurt

Scepticism and fears about possible job losses have greeted the revelation that Switzerland's two largest financial institutions had exploratory discussions about merging. There were also indications that the board of Union Bank of Switzerland would reject the approach from CS Holding, the group built around the Credit Suisse bank. UBS's board will discuss the idea at a meeting in Zurich today and will issue a statement this evening. The merger of the two institutions would create the world's second largest bank after Bank of Tokyo-Mitsubishi Bank of Japan, with combined assets of \$F800bn (\$67bn). However, it would also lead to substantial redundancies in overlapping businesses, especially in Switzerland and to a lesser extent in London.

Initial talks between CS Holding and UBS prompt fears of mass job losses

"We give very little credence to this proposal; the synergies are not that evident," Mr Pierre Tissot of Geneva bankers Lombard, Odier said. UBS bearer (ordinary) shares fell \$F24 to \$F21.283 and CS shares dropped \$F1.25 to \$F113.75 yesterday after surges on Tuesday when CS said it would issue a statement following a newspaper report about the merger discussions. CS said it envisaged a merger "between two companies of equal stature" but analysts agreed that CS would be the main beneficiary, taking advantage of UBS's greater financial strength. UBS is one of only a few international banks enjoying triple A ratings on its debt from all the

hard to absorb with the Swiss unemployment rate at a postwar record of 4.6 per cent. Zurich's Tages Anzeiger, which broke the story, said CS Holding was practising "nasty blackmail". In the City of London, where both banks have large wholesale operations, there was also anxiety about job losses. UBS, which employs 2,500 in London, admitted there were sizeable overlaps with CS, which employs about 4,000 in the City. By coincidence, Mr Mathis Caballavetta, the UBS chief executive, had a meeting with financial analysts in Zurich yesterday. According to those present, he said the board would only decide today whether or not to continue thinking about the idea.

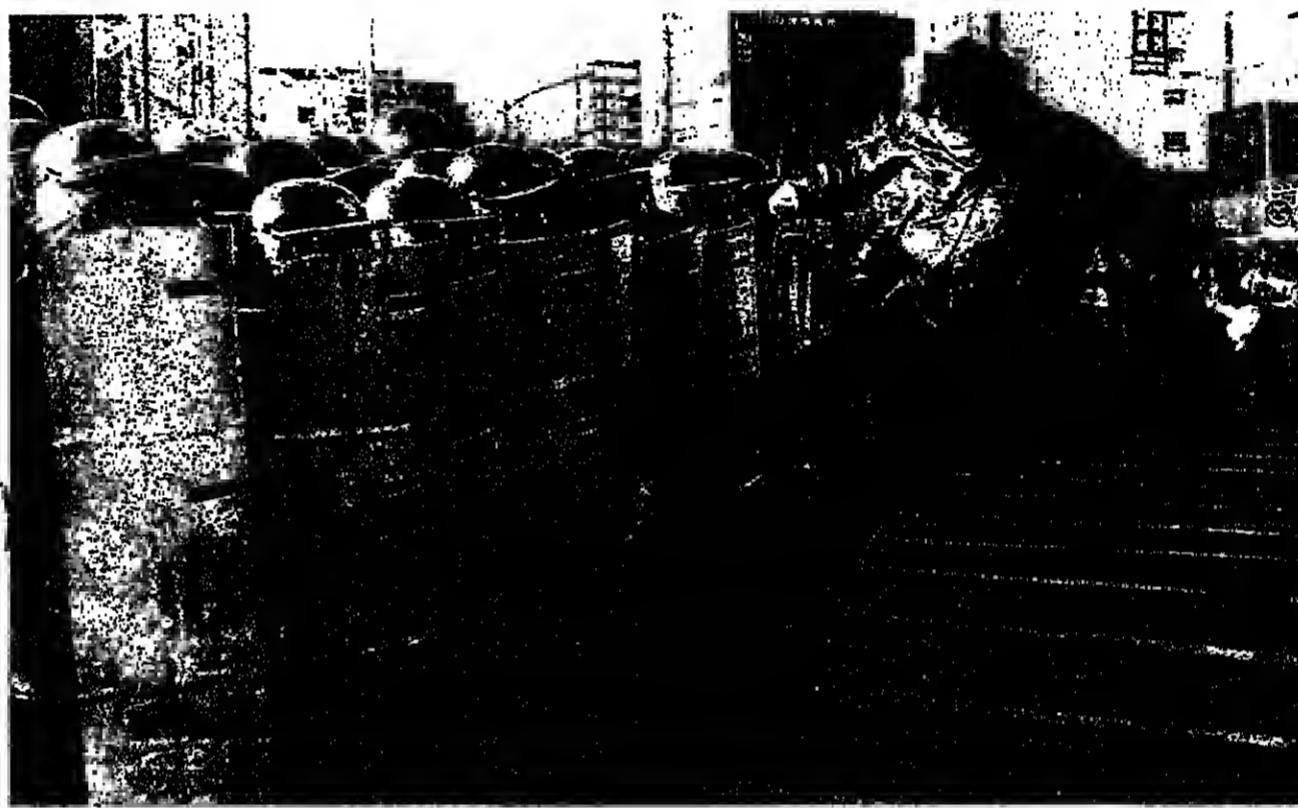
Mitsubishi sued in US over sex harassment allegations

By Michayo Nakamoto in Tokyo
The US arm of Mitsubishi Motors, the Japanese carmaker, is being sued by the US Equal Employment Opportunity Commission over the alleged sexual harassment of several hundred women employees. News of the US case, which will also put a spotlight on the treatment of women in large Japanese companies in Japan, yesterday prompted a 73 fall in the share price of Mitsubishi Motors to ¥963, while Tokyo's Nikkei index rose 47.53 on the day to close at 21,791.7. The US commission filed a lawsuit on Tuesday in Illinois against Mitsubishi Motor Manufacturing of America (MMMA), alleging that it condoned sexual harassment and discrimination against women. "This is a big employer, which for years has permitted gross and shocking sexual discrimination to be perpetrated upon its female employees," claimed Mr Paul Iga-saki, vice-chairman of the commission. The case involves several hundred women employees who charge that male colleagues demanded sexual favours and called them obscene names, and that promotions were denied when those favours were refused. The damages being sought amount to as much as \$300,000 per person. The commission said at least 100 female employees were interviewed about alleged harassment, and that as many as 700 workers may be eligible for damages. The company employs 4,000 workers and about 20 per cent are women. Mitsubishi Motors in Japan said it had received a report about the case from MMMA, which has denied the allegations. "We have been told that there has been no unfair treatment due to sexual discrimination or condoning of sexual harassment by employees at MMMA. We trust that that is true," a Mitsubishi representative said yesterday. "It is a local company and it is important for the issue to be handled locally." According to the charges, most

Thatcher's PR man goes to work on Yeltsin

By Diane Summers in London and John Thornhill in Moscow

Sir Tim Bell, Baroness Thatcher's favourite public relations man, is advising Mr Boris Yeltsin, the Russian president, in the run-up to June's presidential elections. Sir Tim was in Moscow two weeks ago and is thought to have been behind a programme on NTV, the independent television channel, a few days ago which showed Mr Yeltsin's wife, Naina, extolling her husband's virtues. In an interview reminiscent of the TV glimpses into Lady Thatcher's domestic life at Number 10 Downing Street, Mrs Yeltsin talked of how the president washes up and cooks Siberian dumplings. Under Sir Tim's tutelage, Lady Thatcher, in her early days as premier, adapted her dress, make-up and even her voice to enhance her authority, particularly for the television cameras. The UK trade magazine, PR Week, in a report published today, says Sir Tim's agency, Lowe Bell, worked with the Russian prime minister Mr Viktor Chernomyrdin's Our Home is Russia party during the parliamentary elections in December. Sir Tim, who declined to comment on the report, is also thought to have worked for NTV, whose president, Mr Igor Malashenko, was recently appointed head of the information department for Mr Yeltsin's electoral campaign. It is likely that it is through this route that Sir Tim is working for Mr Yeltsin, rather than having a direct contract with the president. The latest opinion polls suggest Mr Yeltsin has been gaining support this year thanks to some well-orchestrated campaign gestures. He has sacked unpopular government ministers, made strenuous efforts to pay the wage arrears of government workers and pensioners and floated a peace plan to resolve the conflict in Chechnya. Opinion polls suggest Mr Yeltsin's support has been rising to about 18-21 per cent of the vote compared with 35-37 per cent for Mr Gennady Zyuganov, the Communist party leader. The other leading presidential candidates are languishing at around 10-12 per cent. If that outcome were replicated in the first ballot on June 16, then Mr Yeltsin and Mr Zyuganov would face each other in a head-to-head poll in early July. But Mr Zyuganov this week questioned the impartiality of some of Russia's polling organisations and condemned the media for pandering to Mr Yeltsin and providing one-sided coverage of the election campaign. Sir Michael Spicer, a leading Tory Eurosceptic, said "This ban



European vets dash Britain's hopes for easing of beef ban

By Neil Buckley in Brussels and George Parker and Deborah Hargreaves in London

UK hopes for a partial lifting of the worldwide ban on exports of beef and beef products were dashed last night after an overwhelming majority of European Union veterinary experts refused to ease restrictions on gelatine and tallow were not at risk of contamination with BSE, or mad cow disease. "Member states are linking any easing of the ban very clearly with BSE eradication and control proposals from the UK," the Commission's agriculture spokesman said. The result bodes ill for British hopes of an early lifting of the blanket ban, which covers all exports of beef and products derived from beef. It was imposed on March 27 after the UK said it had found evidence of a possible link between BSE and a fatal human brain disease. The Ministry of Agriculture said the decision was "bitterly disappointing". It caused anger among Tory MPs, who insisted the ban on all beef products should be lifted immediately. Sir Michael Spicer, a leading Tory Eurosceptic, said "This ban

is probably illegal and it should certainly be challenged in the courts. It is about time now that we stopped allowing ourselves to be kicked around by EU agriculture ministers and their advisers like a football." The government is now unlikely to see any easing in the worldwide ban before the end of the month when it is due to present a selective slaughter plan for herds most affected by BSE to the Commission. Mr Douglas Hogg, UK agriculture minister, has said he will resist a wide slaughter plan demanded by the EU, but UK agriculture ministry officials conceded yesterday Britain would probably have to implement a policy of selective slaughter. "The ministry is drawing up plans for slaughtering groups of cattle born after the ban on contaminated feed was introduced in 1988, but which later contracted BSE." Sir Jerry Wiggin, chairman of the House of Commons all-party agriculture committee, agreed the ban was "unreasonable and unjustified", but said Britain should be wary about threatening legal action on the grounds that it could jeopardise a negotiated settlement. The safety of gelatine, used in foods such as jelly, yoghurt and sweets, and tallow, used in soaps and candles, as well as other cosmetics containing ingredients derived from beef, is now expected to be discussed by the EU's pharmaceutical committee in London on Monday. Farmers may sue, Page 6

A South Korean student delivers a flying kick to a line of riot police during a demonstration that turned violent in Seoul. Thousands of marching students defied teargas to demand the resignation of President Kim Young-sam after the long-delayed funeral of a colleague who died in a protest. South Koreans go to the polls today and the government expects a setback. Meanwhile, officials have told the country that it may face a crisis from North Korea's continued aggressive stance, warning of a possible naval blockade. Further reports, Page 5. Picture: Reuters

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سكوا من الأصل

NEWS: EUROPE

Brussels promotes loan scheme for jobs

By Neil Buckley in Brussels

The European Commission yesterday proposed an Ecu1bn (\$1.25bn) loan guarantee scheme for small businesses, aimed at creating about 30,000 jobs across the EU each year.

Mr Yves-Thibault de Silguy, economic and monetary affairs commissioner, said the scheme aimed to make it easier for small businesses - one of the most important sources of new jobs - to obtain loans at lower interest rates.

Such companies, especially those which employed fewer than 50 peo-

ple, were often considered high credit risks, and were unable to offer the forms of security required by banks. As a result, they either failed to get loans, or paid higher interest rates.

Finance ministers need to approve the scheme, christened Elise (European Loan Insurance Scheme for Employment), and are likely to do so since it falls within existing budgets.

Under the scheme the Luxembourg-based European Investment Fund would guarantee 50 per cent of the value of loans to small companies - 75 per cent where the loans involve cross-border projects - up to a total of Ecu1bn per year.

Preference would be given to companies with fewer than 50 employees, and only those proposing to create new jobs would be eligible. There is no regional preference.

Loans would be managed and granted by intermediary financial institutions with a "solid track record" of lending to small businesses. The European Investment Fund would not guarantee individual loans, but the financial institutions' loan portfolios.

The Commission proposes to finance the premiums to guarantee the loans, using funds from the EU budget. Up to Ecu25m has already

been provided for employment and growth spending in the 1996 budget. Mr de Silguy said it was difficult to forecast how many jobs might be created by the scheme, but at least 30,000 per year was the objective.

The European Investment Fund, which was set up after the Union's 1994 summit in Edinburgh, specialises in loan guarantees for trans-European energy and transport networks, and for small and medium-sized enterprises.

It has authorised capital of Ecu2bn, 30 per cent subscribed by the European Union, 40 per cent by the European Investment Bank, and the rest

by 78 financial institutions from member states.

Mr de Silguy said the Elise scheme would form an important part of the "confidence pact" for employment proposed last year by Mr Jacques Santer, the commission president, aimed at lowering the Union's 11 per cent unemployment rate.

Mr Santer's campaign to lower EU unemployment also involves attempting - so far unsuccessfully - to persuade member governments to allow \$2.5bn in surplus Union funds to be diverted to support large projects such as construction of trans-European networks.

Tietmeyer offers solution to the problem of changing parities

Finding way through Emu ins and outs

For someone whose working hours are devoted largely to preparing his own demotion and scaling back the importance of the institution he heads, Mr Hans Tietmeyer, president of the Bundesbank, gives no impression of relinquishing control.

Mr Tietmeyer, who will be 65 in August, is roughly halfway between taking up one of the most powerful non-elected offices in continental Europe in October 1993 and the time when the Bundesbank's all-pervading monetary influence will be supplanted by the European central bank if Emu starts punctually on January 1, 1999.

Yet the man widely held to be mounting a vigorous action against the single currency and the disappearance of the D-Mark was only too happy to spend much of an interview explaining how Emu should function when not all members of the European Union will be in at the beginning.

The informal meeting in Verona of European Union finance ministers and central bank governors at the weekend will concentrate on this very question of Emu's "ins" and "outs". Mr Tietmeyer stated in detail how it should be solved in a way that both ensured the stability of Emu and left the way open for others to join.

For Mr Tietmeyer, both are equally important. A solution should help the "outs" become members of Emu. "The basic aim has to be the achievement of greater convergence between countries that join European monetary union from the start and those which stay out." But it should also shield Emu countries from inflationary pressures caused by exchange rate instability among non-members. "It is not right to expect the euro-area to stay stable, while sacrificing



Mr Hans Tietmeyer suggests putting future European central bank chief at heart of parity change process

Membership of new ERM might not be compulsory

EU member states which do not join a single currency should not necessarily be compelled to become members of a new exchange rate mechanism, Mr Yves-Thibault de Silguy, the European monetary affairs commissioner, hinted yesterday, writes Neil Buckley in Brussels. The priority for EU finance ministers meeting in Verona this weekend was to establish the broad principles for a "new monetary system" to replace the current exchange rate mechanism, he said. It was not possible to say whether membership of such a system would be compulsory until its

workings had been determined.

Mr de Silguy suggested membership of a "flexible" system, with broad and differing fluctuation bands for different currencies, could be mandatory. But if a more "binding" system, with narrower bands, were adopted, membership might be "optional".

However, Mr de Silguy insisted it was vital for all 15 member states to co-operate in drawing up the rules for the new system. "All of them must play together as a team. We don't want to have some just sitting by and watching."

in the foreseeable future". The Bundesbank would not be rattled by jitters on the US bond market. "We do not orient our policies towards the US business cycle, but to ours."

This was his only reference to developments outside Europe. He preferred to discuss Emu and his expectation that Germany's economy would recover this year. At a time when the country was having trouble meeting the Maastricht criteria on budget deficits, he stressed that Emu would require hard work by all potential members if it was to succeed.

means. But, recalling how the Frankfurt-based institution. Mr Tietmeyer's insistence on stability for countries inside and outside Emu is also reflected in his, and his colleagues', distaste for short-termism. Thus, while the Bundesbank is prepared, ahead of Emu, to consider dropping its opposition to the Bonn government falling in line with other EU countries and issuing short-term debt, it is not ready to jeopardise the financial stability built up over years.

"We think it is right that the longer term culture should be maintained," he said. "We still consider the dominance of a short-term mentality [in financial markets] to be problematic."

He also stressed that the Bundesbank would not veer from following money supply trends in deciding interest rate moves. It would see if there was room for further cuts in the discount and lombard rates, now 3 and 5 per cent respectively, but this would depend on M3.

Yesterday, it said this broad monetary aggregate grew at an annualised rate of 12.8 per cent in February, marginally higher than the provisional figure. However, Mr Tietmeyer said: "Taking a longer term view, we are in the corridor [the 4-7 per cent target range for M3 this year]. Now, we will see how things develop further."

On the other hand, "there is no question of an interest rate

EUROPEAN NEWS DIGEST

Slovenia gives in to rail strikers

The Slovenian government yesterday gave in to a pay claim by railway workers six hours after they started a national strike. The railway union had already accepted a 6.2 per cent salary rise after demanding 28 per cent, but had held out for a 20 per cent supplement for Saturday work. The management had offered 15 per cent.

The average monthly wage of railway workers was 119,000 tolar (\$90) in January, the same as the national average. During the strike around 70 per cent of domestic trains did not run but international trains - protected by Slovenian law - ran as scheduled.

The rail strike is the latest outbreak of industrial action in Slovenia, where the ruling centrist Liberal Democrats of prime minister Janez Drnovsek, in coalition with the rightwing Christian Democrats, must hold an election by December.

A strike by doctors and dentists in the former Yugoslav republic continued for a fourth week, leaving only emergency services operating normally. Their union was demanding a 25 per cent pay rise from January but the government said it could only raise salaries gradually to avoid similar demands from other public sector unions. *Reuters, Ljubljana*

Bulgaria to overhaul its railway

Bulgaria's debt-ridden state railway company, BSRG, is to close lines, cut jobs, raise fares, sell assets and set up joint ventures with foreign partners to a series of efficiency measures announced yesterday.

Charges for carrying freight will rise by up to 20 per cent from July 1 and passenger fares will rise from June 1 on a scale pegged to the inflation rate and a planned increase in energy prices.

The railway has had to delay setting up a joint venture with a plant producing sleepers for railway tracks and electric pylons in the Danube river port of Svishtov due to disagreements with a bidder, said the deputy executive director, Mr Yordan Mirchev. Another joint venture will be set up soon between a Sofia plant for railway points and Austrian engineering company, VAE Eisenbahnsysteme, Mr Mirchev said. The venture will sell its production in neighbouring countries in the Balkans.

The BSRG executive director, Mr Angel Dimitrov, said the railway lost 2.7bn leva (\$24m) in 1995, mainly due to a drop in passengers and infrastructure expenditure. The company's liabilities to the state budget, banks and suppliers totalled 7bn leva, he said, and subsidies this year would total 10.5bn leva, including 5bn leva from the European Bank for Reconstruction and Development as part of a \$46m loan aimed at the railway's restructuring. *Reuters, Sofia*

Brussels approves Bosch deal

The European Commission yesterday cleared Germany's Robert Bosch to buy Allied Signal's worldwide hydraulic brakes business, including its anti-lock brakes systems (ABS).

It said that although Bosch's share of the market for ABS systems was about half in Europe and 30 per cent globally, the deal was unlikely to reinforce the German company's position because Allied Signal had "low market shares" worldwide and in Europe and its ABS business "has not been successful recently".

Brussels believes that Bosch will face stiff competition from ITT, Lucas, Kelsey-Hayes and Nissin Kogyo, and that Bosch and ITT (which has more than 5 per cent of the ABS market) are unlikely to create an oligopoly because of the power of the carmakers.

Approval was also given yesterday for a seeds joint venture between the British agrochemicals and drugs company Zeneca and Co-operative Suliker Unia of the Netherlands. The two companies are to pool their global seeds businesses, Zeneca Seeds and Royal VandeHove Group.

Brussels is starting infringement proceedings against France for refusing to allow a Greek cement company to open a distribution and storage centre in the harbour area of Grand Couronne, near Rouen. It said the French had imposed "excessive and discriminatory" environmental protection rules on Interim, part of the Titan group, while French companies were subject to less strict rules. *Reuters, Brussels*

Andreotti trial to begin again

A judge yesterday halted the trial on Mafia charges of Italy's former prime minister, Mr Giulio Andreotti (left), and ordered that it start again from scratch on May 15. The decision by presiding judge Francesco Ingargiola resulted from the illness of one of two associate judges sitting with him on the bench. Mr Andreotti's trial opened in the Sicilian capital, Palermo, last September but the court has not sat properly since January 10 because of the absence of a judge who has been suffering from a detached retina. The presence of both associate judges is necessary under Italian law.

The trial will now have to start again with initial procedural matters, but both prosecution and defence want at least some of the testimony already presented to be integrated into the new proceedings to save time.

Mr Andreotti, seven times prime minister, denies charges he was the Mafia's political protector. He is due to stand trial from today in the central city of Perugia on a separate charge of complicity in the murder of a journalist. *Reuters, Palermo*

Takeover of Czech sell-off body

The Czech Privatisation Ministry, which has overseen the sale of thousands of state companies, expects to close its doors and wind down operations by June 30, a ministry official said yesterday.

The government approved the closure of the ministry in one of its autumn sessions last year.

Parliament has said it will discuss the issue during its session starting on April 16, its last before general elections on May 31-June 1. The Finance Ministry is to take over responsibility for sell-offs. *Reuters, Prague*

Norway's inflation falls to 0.7%

Norway's inflation rate fell to 0.7 per cent for the 12-month period ending on March 15, from 0.9 per cent a month earlier, the government statistics agency announced yesterday.

Statistics Norway said a significant factor was a cut in taxes which reduced new car prices by an average 4.6 per cent from January 1. The consumer price index increased 0.5 per cent to 261.3 in March from 260.1 in mid-February. The index was 259.4 in March 1995. *AP, Oslo*

Russian oil pipe leaks into river

Oil leaked from a pipeline into the Krepkaya river in the southern Russian region of Rostov yesterday, but it was not clear how big the spill was, the region's emergency officials said.

They said oil flow through the 700mm-wide Tyumen-Novorossiysk pipeline had been stopped and there was little threat to the environment, but could not say how much oil had leaked out.

Civil defence officials said they feared the oil could flow from the Krepkaya into the Don river, which provides drinking water for the whole region. They said the oil had covered a 20km stretch of the Krepkaya after the leak early yesterday. Fire brigades had been called in to make sure the oil did not ignite. *Reuters, Rostov*

Yeltsin hints at nuclear concessions

By John Thornhill in Moscow

President Boris Yeltsin hinted yesterday that Russia would adopt a highly conciliatory position when leaders of the Group of Seven industrial nations gather in Moscow next week to discuss nuclear security issues.

He told a meeting of his security council that Russia would be prepared to accept wider international scrutiny of its nuclear arsenal, and encourage cooperation between all eight countries' security services to prevent the smuggling of nuclear materials.

"Russia is making serious efforts to ensure the security of the nuclear energy sector. But these issues cannot be properly addressed solely through national programmes," he said.

Mr Yeltsin said he planned to invite foreign experts to assess the condition

of Russia's oldest nuclear power plants and would allow the International Atomic Energy Agency oversight of a nuclear storage site at the Mayak plant in the Urals. This plant, being built with US help, will contain 40 per cent of all the country's weapons-grade plutonium.

The uncertain condition of Russia's vast nuclear arsenal has caused increasing alarm around the world - especially following a spate of nuclear smuggling incidents since 1993.

Much of its estimated 1,200 tonnes of fissile material is kept in poorly protected storage patrolled by demoralised and underpaid guards, sparking fears that terrorist groups or states could steal the components needed to build a nuclear bomb.

The US government is spending about \$800m a year to help Russia

secure its nuclear facilities and decommission its nuclear weapons. But further western initiatives are expected at next week's summit.

At its height in the mid-1990s, Russia's nuclear arsenal consisted of 45,000 weapons, but it has been reduced at a rate of about 2,000 a year since 1996.

Despite Mr Yeltsin's rhetoric, the Russian authorities have in practice proved obstructive to some western aid initiatives. The atomic energy ministry, which was once at the heart of the Soviet Union's secret state and continues to oversee the bulk of Russia's nuclear storage sites, has been deeply sceptical of western intentions in offering assistance.

The authorities have also clamped down severely on western environmental organisations trying to monitor radioactive leakage from sunken

nuclear submarines in the Barents Sea. Mr Yeltsin vowed to complete the withdrawal of all remaining nuclear weapons in the Soviet arsenal from Ukraine and Belarus by the end of the year despite suggestions that Moscow might try to link this process to broader European security issues.

Some military officials in Moscow and in Minsk, capital of Belarus, had been pressing for Russia to drag its heels on weapons withdrawal unless Nato slowed its plans to expand eastwards. But Poland's President Alexander Kwasniewski, who was in Moscow yesterday for talks with Russian leaders, said he was confident Russia would remove all nuclear weapons from Belarus as previously promised. But he reaffirmed Poland's determination to join Nato despite Russia's objections. *Russia Survey: Separate Section*

Russian oil shares deal defended

By John Thornhill

Russia's biggest oil companies yesterday dismissed suggestions that the government would unscramble its controversial "shares-for-loans" privatisations and buy back packets of shares it had transferred to leading banks last year.

Such talk reflected political rhetoric ahead of the presidential elections rather than economic reality, they said.

Last year, the Russian government raised \$2.4bn (£490m) by transferring its shareholdings to big oil companies such as Lukoil, Yukos, Sibneft, Surgutneftegaz, and Sibneft to a group of banks but retained an option to buy them back before September.

Mr Alexander Kasakov, privatisation minister, hinted this week that the government might exercise this option although it had not budgeted to do so. "The state should preserve its influence in oil companies," Mr Kasakov said.

Russia's Communist party has tried to milk the controversy surrounding the Byzantine "shares-for-loans" privatisations and vowed to overturn all "criminal" deals. That has increased the political pressure on the government to reconsider the contentious scheme.

In an interview last month, Mr Yuri Shafarinik, the energy minister, indicated the government would adopt a purely pragmatic view towards the "share-for-loans" privatisations and leave the shares in private hands if the oil companies had benefited from the association with their new shareholders.

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صكيات الامم

NEWS: EUROPE

Strikers to test France Télécom

By David Buchan in Paris
The French government's plan for partial privatisation of France Télécom meets its first - and perhaps last - serious test with today's strike called by unions demanding the state retain full ownership of the public utility.

Parties seek new angle in Pythagoras land



ITALIAN ELECTIONS April 21

Crotone, once the home of Pythagoras, the mathematician and philosopher, is exceptional not for its Greek ruins but for the smoking factories which line the beach to the north of the Calabrian town. It is that rare southern Italian phenomenon, an industrial centre.

which put an end to the violent dispute by promising the town special status as a development area. Threatened jobs would be redistributed to new employers, and a consortium set up to promote the area.

Mr Turino admits that an AN victory would be "a miracle". The area's deep industrial roots mean it has been dominated by the left for more than 50 years, and it was once dubbed the "Stalingrad of the South".



Party leaders before a TV debate on Tuesday night (left to right): Gianfranco Fini (National Alliance), Silvio Berlusconi (Freedom Alliance), presenter Bruno Vespa, Umberto Bossi (Northern League), Lamberto Dini (Renewal party), Massimo D'Alema (PDS)

There is no shortage of rhetorical commitment to the area. Many national party leaders are heading the election lists in Calabria, for example, in an attempt to demonstrate their willingness to tackle the region's problems.

between unions and government is a model for local co-operation now being taken up across southern Italy. The consortium groups entrepreneurs, trade associations and local representatives of Eni, Enichem's state-controlled parent.

growth of small and medium-sized enterprises, reducing the risk that the decisions of a single employer could provoke another crisis like that of 1993.

Mr Salvatore Foti, the local businessman who heads the consortium, is optimistic about the local will to create new job opportunities with government help in infrastructure and training.



left, "looking for depressed areas and intervening on the ground". It is a theorem of Pythagorean simplicity. But in the past, politicians have proved unable to make training, infrastructure and inward investment coincide.

Mr Gaetani says this is exactly the goal of the centre-

Andrew Hill

Bosnian Serbs win aid talks seat

By Laura Silber in Belgrade

The Bosnian Serbs were yesterday given the go-ahead to attend an international donors' conference this week-end on aid for reconstruction.

The Belgrade authorities yesterday unexpectedly detained 18 men from the fallen eastern enclaves of Srebrenica and Zepa, just before they were to board buses to return to Bosnia from a refugee camp inside Serbia.

reporters in Sarajevo. "That is the most important thing. The offer for them to participate is now there."

new strategy of taking a "very firm line" on the prisoner issue "has proved to be a success".

frustrated by the former warring parties' delays in implementing the Dayton accords, Mr Bildt had threatened to exclude them from the reconstruction conference unless they freed prisoners of war or submitted their names to a list of suspected war criminals at the international tribunal in The Hague.

Mr Bildt said the help that we expect from Islamic countries in equipping the army and economic reconstruction of our country will be definitely one of the strongest factors in strengthening and building a stable peace in this part of the world."

Mr Halis Komic, leader of Tusnad, said: "The parties know well that unless they make some positive, measurable headway towards solving the problems of our country, they do not stand a chance of increasing their share of popular votes."

Turkish business leader calls for end to 'chaos'

By John Barnham in Ankara

The head of Turkey's main business organisation yesterday called on the two conservative parties in the new coalition government to stop hickering and take urgent action to deal with the country's mounting problems.

Refaah party, the main opposition. Mr Komic said that far from facing imminent collapse, the new government reflects a national consensus in favour of market-oriented policies.

NEWS: THE AMERICAS

Venezuela to remove forex controls



Caldera: to announce measures next week

The Venezuelan government is to remove all foreign exchange controls, which have been in place since June 1994. Mr Teodoro Petkoff, the planning minister, yesterday said that the measure was likely to be announced early next week by President Rafael Caldera as part of a global economic stabilisation plan.

talks with the International Monetary Fund for a stand-by agreement of up to \$2.5bn aimed at curbing the nation's worst economic crisis in years, part of which would be to help recuperate reserves after the liberalisation of the foreign exchange regime.

Major points of contention between the IMF and Venezuela included raising the price of heavily subsidised gasoline that is among the cheapest in the world, officials have said.

The California state securities regulator yesterday refiled its amended complaint against Lloyd's of London seeking an injunction to freeze \$500m of Lloyd's funds held with its US bank, Citibank.

AMERICAN NEWS DIGEST

Call to freeze Lloyd's funds

The California state securities regulator yesterday refiled its amended complaint against Lloyd's of London seeking an injunction to freeze \$500m of Lloyd's funds held with its US bank, Citibank.

Odd couple do battle again

One of Washington's oddest political couples - Ms Mary Malin, Republican strategist, and Mr James Carville, Democratic adviser to President Bill Clinton - are set to face off again over campaign politics.

Arrests in Mexican probe

Mexican police have arrested an accountant and a businessman who allegedly acted as frontmen for Mr Raul Salinas, the elder brother of former president Carlos Salinas, who is in jail on charges of embezzlement and murder.

Montserrat evacuation likely

The authorities in Montserrat are considering the evacuation of most of the island's 11,000 people to neighbouring islands if scientists confirm the imminent eruption of a rumbling volcano.

Convert Republican loses Texas nomination

By Patti Waldmeir in Washington

In an embarrassing defeat for the Republican establishment, congressman Greg Laughlin, a Democrat who turned Republican, lost his bid for his new party's nomination in the 14th congressional district of Texas.

200 other Democratic officeholders, to prove that there is a Republican revolution taking place in American politics.

party primary on March 12 failed to yield a clear majority for any candidate.

Clinton leads mourners for dead cabinet minister Ron Brown has hero's funeral in Washington

By Patti Waldmeir and Nancy Durne in Washington

President Bill Clinton yesterday led US politicians in a hero's funeral for Mr Ron Brown, the commerce secretary, who died in a Balkan air crash last week.

of mourning during which Mr Brown's flag-draped casket lay in state at the Commerce Department, on the same hillside built in 1865 to bear the body of President Abraham Lincoln.

After the cathedral service, a funeral procession was due to retrace Mr Brown's life symbolically, wending its way through a black urban neighbourhood and the heart of official Washington on its way to Arlington National Cemetery.

NEWS: WORLD TRADE

French partner endorses calls to turn aircraft consortium into a limited company

Aérospatiale chief backs Airbus reform

By Michael Skapinker and David Buchan in Paris

Mr Louis Gallois, the chairman of Aérospatiale of France, yesterday threw his company's weight behind a radical restructuring of Airbus Industrie, calling for an end to the European aircraft consortium's tradition of allocating work in accordance with the shareholdings of its partner companies.

Speaking on the day that Airbus won a \$1.5bn order from China, Mr Gallois said Airbus should be free to seek out low-cost suppliers, even if these were not its European shareholding companies.

He accepted that his proposals meant Aérospatiale would have to compete against other manufacturers to win Airbus contracts and might end up with less work than it had now. His proposal would mean the end of the Airbus practice of *juste retour*, under which the consortium's partner companies are guaranteed a certain proportion of aircraft manufacturing work.

The UK has been a strong advocate of turning Airbus, the world's second largest aircraft maker, into a limited company. The UK recently received support from the German government, which said it would not subsidise the building of new Airbus aircraft unless the consortium changed its structure. Mr Jean Pierson, Airbus man-

Airbus: more competition in the flight plan?



Louis Gallois, president of Aérospatiale: 'It is in the interest of Airbus to open itself to competition'

aging director, has also called for Airbus to become a limited company.

Airbus is a *Groupement d'intérêt économique*, which means its profits and losses accrue to the companies that own it rather than to the consortium itself. Airbus is owned by Aérospatiale, Daimler-Benz Aerospace (Dasa) of Germany, each with a 37.9 per cent stake, British Aerospace, which has 20 per cent, and Casa of Spain with 4.2 per cent.

The four partner companies are allocated work on Airbus aircraft in accordance with their shareholdings. Critics of the GE structure say it prevents Airbus from competing effectively because it cannot

The share-out

Work on Airbus aircraft is currently shared out in accordance with each partner's stake in the consortium:

- Aérospatiale holds 37.9%
- Dasa holds 37.9%
- BAe holds 20%
- Casa holds 4.2%

Who does what

- Aérospatiale makes the high-technology portfolio, including the cockpit
- Dasa produces the fuselage
- BAe manufactures the wings
- Casa makes the tail assembly



Jean Pierson, managing director of Airbus Industrie, also wants Airbus to become a limited company

contract its work out to lower cost manufacturers. As a limited company, they say, it could drive down costs and compete more effectively with Boeing of the US, the world's biggest aircraft manufacturer. Some in the industry claim Aérospatiale is the strongest opponent of any change in the Airbus structure but Mr Gallois strongly denied this. He said Airbus needed to become a limited company because airlines were demanding it. He said: "They want to be reassured about the future of Airbus and they think the future of Airbus is linked to the transformation of its status into a fully fledged company."

He added that Airbus would

soon have more than 2,000 aircraft in service and it had to be able to react more quickly to customer demands. It could do this more effectively if it was a company in its own right. A committee under the leadership of Mr Edzard Reuter, former chairman of Daimler-Benz, is due to report at the end of May on whether the structure of Airbus should be changed. Mr Gallois said, however, that Airbus could not be transformed overnight. "I don't see the Airbus Industrie company becoming independent of the shareholders from day one."

Airbus would be the only aircraft manufacturer making solely commercial aircraft, he

said, as Boeing and McDonnell Douglas of the US had large military businesses. He said the partner companies would have to work to ensure that the financial markets accepted the Airbus company's viability. He said the partners would have to decide whether, after a transitional period, all their Airbus manufacturing facilities would be transferred to the new company or whether Airbus should have the right to choose its suppliers freely. He said, however, that transferring all the partners' Airbus facilities to the newly formed company would limit its freedom to seek out the lowest cost suppliers.

He said: "I think it is in the

interest of Airbus to open itself to competition. If we put every facility inside Airbus, that means there's no competition." Did Mr Gallois accept that in a fully competitive system, Aérospatiale might end up with less than 37.9 per cent of the work? "Yes - or more," he said. "We are fully confident about our competitiveness."

Mr Gallois rejected the view that Aérospatiale was less competitive than BAe. He said Aérospatiale was overwhelmingly a civil manufacturer, while BAe's business was predominantly military, where margins were higher. He said that while he had the highest respect for BAe's management, the UK company had had the advantage of operating in sterling rather than the strong French franc.

He said once Airbus had been incorporated, Aérospatiale, Dasa and BAe should work towards a closer integration of their businesses. He said the three companies were too small on their own to compete with the large US aerospace and defence groups.

"Airbus is so important to the three companies and we have so many links outside Airbus that we need a permanent convergence between our groups."

But he was still unclear what form this rapprochement should take. "It could be financial, it could be technical," he said.

WORLD TRADE NEWS DIGEST

Unilever to make ice cream in Vietnam

Vietnam has approved a \$22m ice cream manufacturing venture by Unilever, the Anglo-Dutch consumer products group, to produce and sell Wall's ice cream. Ice cream sales have risen in the cities since economic reforms took hold in the early 1990s, boosting disposable incomes. The plant, to open next year, will be in Cu Chi district, 35km north of Ho Chi Minh City. The site is not far from the Cu Chi tunnels, a vast network of underground passages used by Vietnamese guerrillas during the Vietnam war and now a popular tourist attraction. The area has also started to attract an increasing number of foreign investors seeking to escape high land and labour costs in Ho Chi Minh City. About 80 per cent of the raw and packaging materials would be obtained locally. Baskin-Robbins, the US ice-cream maker, already has three franchises in Ho Chi Minh City and one in Hanoi, where a scoop sells for \$1.30. *Jeremy Grant, Hanoi*

Sumitomo opens S Africa office

Sumitomo Bank, one of Japan's largest, is to open an office in Johannesburg, becoming the first Japanese lender to operate in South Africa. The office will collect information for Japanese companies planning to do business in the country. The bank hopes to contribute towards the development of long-term economic relations between Japan and South Africa. Japanese investors have been reluctant to invest in South Africa, though in the last few years a number of companies have opened offices there. Two years ago, Sumitomo Corporation became the first Japanese company to invest in the country in the post-apartheid era, when it set up a joint venture with a local mining company. *Gerard Baker, Tokyo*

BMW and Jaguar target Japan

Luxury car makers BMW and Jaguar yesterday announced marketing and sales drives in Japan. The Japanese unit of BMW yesterday launched a remodeled BMW 5 series in Japan with a new BMW 525i and 528i going on sale on June 1. The company has set a target of 10,000 cars for 1996. The new 5 series features a side airbag as standard equipment and aluminium suspension parts. Jaguar Japan said yesterday it hoped to boost local vehicle sales to 8,000 units a year by 1999 from about 2,500 at present. It plans to double sales outlets to 80 by 1999. *Foreign Staff*

UK plans Jakarta rail bid

Indonesian transport minister Haryanto Dhanutirto yesterday said the UK planned to bid for a high-speed train link between Jakarta and Surabaya in East Java. He said the UK has proposed a 300kph train, coaches and provision of a soft loan for the project. Mr Haryanto said the bid has the backing of visiting UK transport secretary Sir George Young. *AFX Asia, Jakarta*

Japan Air System and Air Nippon of Japan plan to ask the Japanese transport ministry that their bids for Japan-US air routes be put on the agenda for the next round of aviation talks with the US. Japan Air System is likely to seek approval for routes linking Tokyo to Honolulu and the US West coast, as well as between Osaka and Honolulu. Air Nippon wants to begin services to Guam, Saipan and Honolulu from Japan's regional airports. *AFX Asia, Tokyo*

Fall in American chip sales fuels uncertainty

By Louise Kehoe in San Francisco

The US semiconductor industry's "book to bill ratio", a closely watched indicator of market trends, dropped to a record low in March, signalling an industry-wide slowdown. Chip sales during March in North and South America were \$1.16bn, down about 3 per cent from February sales of \$1.29bn, according to data released by the Semiconductor Industry Association. New orders booked during March dropped sharply to \$3.33bn, down

12.5 per cent from February. The book-to-bill ratio, a measure of the value of chips sold against new orders - fell to 0.80 from a revised February figure of 0.89. A ratio below 1.00 normally means demand for semiconductors is slowing. The decline in the industry indicator should have been expected, an industry official said, because the ratio is calculated as a three-month rolling average and chip sales were strong in December, boosting the February figure. "Worldwide, the market outlook for the chip industry is

still very bright," said Mr Doug Andrey, SIA director of information systems and finance. Financial analysts, however, had been projecting a ratio of about 0.90, roughly flat with February. The decline is likely to fuel uncertainties about the industry outlook.

Several factors appear to be contributing to the industry slowdown. Personal computer manufacturers have a backlog of chip stocks after slower-than-expected sales last Christmas. Although PC sales were up more than 20 per cent in the fourth quarter of 1995 against

the same period a year before, some analysts had predicted growth of more than 30 per cent.

In addition, prices for memory chips have declined sharply over the past three months. In some cases by as much as 60 per cent, as production outpaces demand.

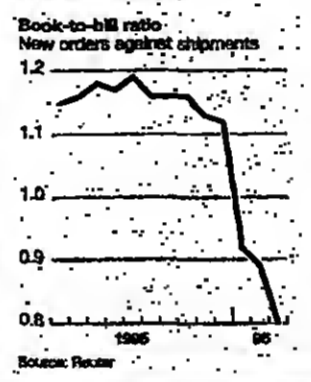
However, most industry analysts expect the US chip industry to rebound by the end of this year as computer manufacturers use up their excess stocks of chips. Another good sign for chip makers is a slight rise in the

average prices of some memory chips over the past few weeks.

Overall, semiconductor market growth for the year is now expected to moderate to about 15-20 per cent, down from close to 40 per cent last year but in line with the industry's long-term growth rate.

Last month, following the second consecutive monthly fall in the book-to-bill ratio, Texas Instruments, one of the largest US semiconductor manufacturers, said it had cut its estimate for 1996 industry sales growth to about 20 per cent, from 40 per cent last year.

Semiconductors



NEWS: INTERNATIONAL

Sudan casts around for friends

By James Whittington in Cairo

The Sudanese government is desperately trying to forge a series of unlikely alliances with opposition groups as it becomes increasingly likely that the United Nations Security Council will impose some form of sanctions on the country for its alleged support of international terrorism.

Yesterday, the Islamist military regime in Khartoum said it had signed peace agreements with a number of rebel groups and the civil war in southern Sudan.

Significantly, however, the Sudan People's Liberation Army, which has led the 13-year war against central government in Khartoum, was not a party to the agreements.

Last week, Sudanese President Omar Hassan al-Bashir tried unsuccessfully to woo another implacable detractor, Mr Sadeq al-Abadi, head of the Umma opposition party who was prime minister of the government Lt Gen Bashir overthrew in 1989.

The Security Council is holding informal consultations on a draft resolution for mainly diplomatic sanctions on Sudan. This comes as punishment for Khartoum's failure to hand over three Islamist militants who are wanted by Ethiopia in connection with the assassination attempt on Egyptian President Hosni Mubarak in Addis Ababa last June.

The draft calls for a reduction of diplomatic missions in Khartoum, restrictions on members of the Sudanese government travelling abroad, and the banning of international and regional conferences in the Sudan.

In the face of harsher measures, such as an economic, arms and air embargo which Ethiopia and the US have been pushing for, the regime in Khartoum has won the reluctant support of Egypt which is against any action which would change the military balance between the north and south.

Clouds over Nigeria's port reforms

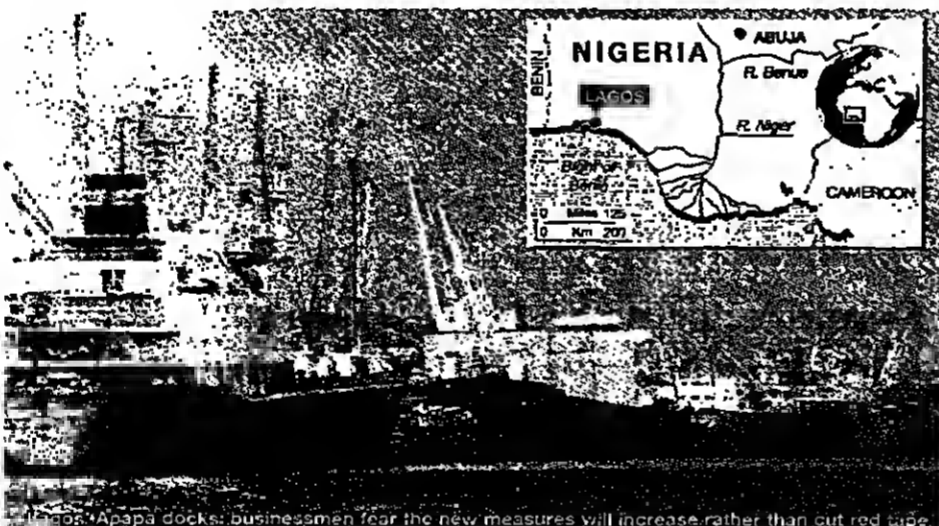
Businessmen view anti-corruption move with scepticism, writes Paul Adams

Ask businessmen in Nigeria what makes it such a difficult place and near the top of their list of grievances would be the corrupt bureaucracy at the ports. One might therefore be surprised that a government purge of customs and a programme to clean up the ports would have been welcomed. But importers, exporters and manufacturers fear that the new measures will increase rather than cut red tape and that corruption will remain in different guises.

Under the scheme, announced by Mr Anthony Ani, finance minister, in February and introduced at the beginning of this month, the collection of import duty is being transferred from the customs service to designated firms of accountants and banks. The government hopes this will root out corruption, end duty exemptions and boost state revenue.

There is also a new set of import and export procedures including, to the surprise of many, pre-shipment inspection for exports and for imports of accompanied personal effects. "So far it is all a bit of a nonsense but we are hoping this will be a first step," says an international shipping expert in Lagos.

Few doubt this need for action in Nigeria's ports, which are among the busiest in Africa. Up to 30 government agencies, ranging from various types of police and military task forces to drugs squads and quarantine inspectors,



At Apapa docks, businessmen fear the new measures will increase rather than cut red tape

operate in them. Rival services compete for power amid poor transport and communications, shortages of power, water and fuel, delays, arrests, bribery, fraud and outright theft. On top of all that, say international shipping lines, the Nigerian ports authority charges among the highest tariffs in the world.

Mr Ani says that although customs, the main target of the reforms, is the second largest source of state revenue after oil, it should be bringing in twice what it is. Some customs posts are so lucrative that officers pay for the privilege.

When the finance minister announced his campaign, he revoked the licences of all customs clearing agents and told them to re-apply. Some of their

chief executives were arrested and some officers charged with fraud. About 6,000 containers, which were landed in Nigeria between November and January without duty being paid on them, were impounded, which jammed up the port. They are only now being cleared.

Activity at the Lagos ports ground almost to a halt before the new guidelines were announced. Trade along the west African coast was already suffering from the closure of the land border with Benin last month for "reasons of security". Just before local government elections.

When they were published earlier this month, the guidelines did little to dispel the confusion. They include provisions that seem unworkable

and are likely to be scrapped, such as the need for pre-shipment inspection even for accompanied personal effects, or unnecessary and potentially damaging, such as the rule that exports be inspected before shipment by two previously unknown agencies which would exact a charge of 1.15 per cent of the goods value.

In the case of oil exports the government will be taxing itself, since it owns 88 per cent of the oil producing joint ventures. The revenue to be gained from non-oil exports would be relatively small and the measure is contrary to the government's policy of diversifying from oil as a source of nearly all Nigeria's foreign exchange. Some exporters believe that the export charge

and the additional red tape could put an end to some marginal exports and depress the leading non-oil export businesses, cocoa and rubber.

"The government's attempt to clear up the mess at the ports is overdue, but I don't think they are going the right way about it," says the head of a manufacturing company. "There seems to be almost no planning of the changes and I wonder how these accountants are going to cope at the ports."

One leading accountancy firm which found itself on the government's list of new customs inspectors says that it does not want this type of business. Mr Ani has had to remove from the list the Nigerian affiliate of KPMG Peat Marwick, of which he used to be senior partner, after some pointed criticism of its connection with the finance minister.

The new import guidelines prompted one of the main courier companies, UPS, to take the precaution of stopping even documents coming in on April 1.

While the new system was to take effect from April 1, companies are waiting while commitments are formed by officials of the finance ministry, customs and the four international pre-shipment inspection agencies at both of the Lagos seaports, the eastern seaports, Lagos airport and Kano airport to work out the new customs system.

But even with a new system, they face an old problem - the strength of vested interests in smuggling in Nigeria.

INTERNATIONAL NEWS DIGEST

Arab markets 'lack faith'

Arab countries need to overhaul investment regulations to boost confidence in their markets and lure foreign investment, economists and bankers said yesterday. "It is no secret that wealthy Arabs place only a fraction of their money in their own backyards," Sheikh Mohammed Salim bin Mahfouz, chairman and chief executive of the Saudi Arabia based National Commercial Bank told the Gulf Economic Forum. "There is a lack of credibility... little faith that laws and regulation regimes will be applied consistently and fairly."

Foreign banks hold about \$670bn of assets of Arab origin, said Saudi Commerce Minister Osama bin Jaafar bin Ibrahim Faah. Oil-rich Gulf states have pumped about \$500bn abroad, according to Mr Paul Papadopoulos, Arab Banking Corporation's first vice president. Speakers at the two-day forum, which ended yesterday in Manama, Bahrain, heard officials from the Palestinian self-rule areas and Bosnia plead for investment by emphasising they were entering new stages of peace. *Reuters, Manama*

Civilians dodge Liberia bullets

A fragile truce held in the Liberian capital, Monrovia, yesterday as hundreds of fugitive civilians dodged sporadic shooting and growing militia fighters try to reach the coast. The US pressed on with its round-the-clock helicopter airlift of Americans and other foreigners to neighbouring Sierra Leone, where 75 evacuees arrived overnight. Civilians in the city centre barracks where fugitive warlord Roosevelt Johnson was holed up with fighters of his Krahn tribe said they were free to leave but afraid to venture out. They said about 30 West African peacekeepers held hostage had been freed but 36 Lebanese civilians had not. Under Tuesday night's ceasefire agreement, which brought some respite after four days of fighting, Johnson agreed to release several hundred civilians and a number of peacekeepers held hostage by his forces.

Witnesses said hundreds of the 15,000 people sheltering in a US embassy annex left, dodging fighters and saying that if they had to die they preferred to die at home. Intensive negotiations took place among West African peacekeepers, faction leaders and members of the ruling council of state to build on the ceasefire agreement. *Reuters, Monrovia*

Superhighway heads south

Ministers from 40 countries including the Group of Seven big industrial nations will meet in Midrand, South Africa, next month to discuss ways to ensure that the benefits of the information revolution are extended to the world's poorer regions.

Officials from both industrialised and developing countries are to meet in Brussels tomorrow to plan the conference. It follows the G7 conference on the global information infrastructure held in Brussels last year where a principal concern was the need to ensure that the growth of information technology does not widen the gap between rich and poor nations.

The Midrand meeting is expected to explore issues such as the development of information highways in developing countries able to help in areas such as medical care and education. Advanced networking technology makes it possible, for example, to carry out remote diagnosis and treatment of some medical conditions. It is expected that the national delegations will be headed by telecommunications or other relevant ministers. Mr Jacques Santer, European Commission president, Telecommunications Commissioner Martin Bangemann and Research Commissioner Edith Cresson are expected to attend. *Alan Cane and Reuters*

سكيا من الامم

Tension over HK handover sparks talks

By John Riddling in Hong Kong and John Kampfer in London

Mrs Anson Chan, Hong Kong's chief secretary, is to meet China's top official responsible for Hong Kong next week to address areas of increasing tension concerning the territory's handover to China next year.

The planned meeting with Mr Lu Ping, head of the Hong Kong and Macao affairs office, comes amid serious strains between Britain and China.

Whatever the preparatory committee does or says about the legislative council, nothing can stop the momentum behind the development of democratic institutions in Hong Kong.

tor of the Hong Kong office of the Xinhua news agency, China's de facto embassy in the territory, has raised hopes the dispute can be eased.

Diplomats in Hong Kong continued to express concerns about the prospects for a smooth transition. They warned the stalemate over the provisional legislature would continue to affect ties between Britain and China.

China's officials are pushing for a short ceremony in Hong Kong on June 30, 1997, with the main celebrations taking place the following day.

Japan's surplus falls 38.8%

By William Dawkins in Tokyo

Japan's current account surplus fell 38.8 per cent in February, compared with a year earlier - a slightly smaller drop than the market had expected but seen by economists in Tokyo as enough to ensure continued weakness of the yen.

The decline in the surplus to ¥745.9bn (\$5.88bn), announced by the finance ministry, means Japan is now likely to report a smaller current account gap in the fiscal year to March for the third year running.

It brings the surplus for the first 11 months of the fiscal year to ¥8,202bn, down a quarter on the same period of the previous year. In response to this, and the receding chance of a US interest rate cut, the dollar hit a 26-month high of ¥108.5 in Tokyo yesterday.

Japan's ruling coalition and opposition last night cleared the way for parliament to adopt this year's national budget by reaching a compromise on an unpopular scheme to use public money to liquidate bankrupt housing loan companies, writes Our Tokyo Staff.

Mr Wataru Kubo, finance minister, said an agreement reached at a meeting between Prime Minister Ryutaro Hashimoto and Mr Ichiro Ozawa, leader of the opposition New Frontier party, had been accepted by coalition leaders.

There will be some revisions, but the main part of the budget will not be affected, as foreign investors rushed to buy Japanese equities.

The changes affected the ¥886bn (\$6.5bn) budget allocation for liquidating the housing loan companies.

The Nippon 225 index yesterday responded to foreigners' interest by closing at a 50-month high of 21,791.70, though the rise for the day was small, at just 47.53 points.

The balance of payments result will help President Bill Clinton and Prime Minister Ryutaro Hashimoto give US-Japan trade matters a low profile at their summit in Tokyo next week.

Japan's surplus in goods and services, excluding financial transfers, fell 55.7 per cent to ¥390bn in February, the 15th monthly decline and smallest trade gap in five years.

Exports rose 16.6 per cent, while imports were up 46 per cent, completing a 19-month run of rises. Within this, Japan's services account deficit rose 22.4 per cent, chiefly due to growth in foreign travel.

Parliament may pass the budget today but it remains unclear when the ¥886bn for the fiscal year will be approved.

UK praises lowering of trade barriers

By William Dawkins in Tokyo

Japan has made progress in trimming regulations that were hampering economic growth and import access, Mr Ian Lang, UK trade and industry secretary, said yesterday.

Japan's trade mission to Japan, reminded his hosts it was important for Japan's trade partners, as well as Japan, to see that economic liberalisation was comprehensive.

Speaking at a seminar on deregulation organised by the Keidanren economic federation, Mr Lang welcomed last month's Japanese government deregulation package, but said difficulties remained in testing for compliance with Japanese industrial standards, the subject of regular com-

plaints by British exporters. While official deregulation is slow, Britain has been among the greatest beneficiaries from a surge in imports, a delayed consequence of the yen's former strength as well as the advance of competitive market forces, as underlined by a sharp decline in the Japanese current account surplus, announced yesterday.

China rail stations face reform axe

By Tony Walker in Beijing

China will close a third of its 5,000-or-so passenger train stations in an effort to make its overstretched rail system more efficient and market-oriented.

This would be in line with reforms of other elements of the state sector encouraged to be self-sufficient. No indication was given on foreign participation in these ventures, but China is seeking investment in its railway system through equity participation.

A Railway Ministry conference in the port city of Dalian in north-east China was told that stations to be closed averaged 50 passengers a day, a large number of freight depots were also idle.

China's loss-making railways are heavily overstaffed, Xinhua said the ministry, which plans to invest ¥300bn (\$39.8bn) over the next five years, would bring new express trains into operation and upgrade its passenger services.

Loyalty drives Korean votes

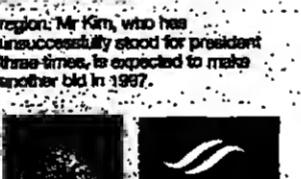
John Burton on the regionalism likely to decide the election today

South Korea goes to the polls

The parties and politicians



Kim Young-sam, former president of South Korea, is seen here in a campaign event.



Kim Dae-jung, a prominent South Korean politician, is seen here in a campaign event.

South Korea's ruling party is hoping recent North Korean military threats will lead to a last-minute surge of voter support and avert a possible defeat for the government in today's general election, writes John Burton in Seoul.

Some political analysts believe the security threat will persuade a large bloc of undecided voters to support the government when tensions appear to be rising.

The Korean media has been dominated by talk of a possible military conflict, since North Korea announced a week ago it would no longer respect the armistice that ended the 1950-53 Korean war.

The North Korean actions reveal "how serious is the present national security situation" and the consequent need for political stability, said Mr Lee Hoi-chang, campaign manager for the ruling New Korea party.

Critics accuse the government of exaggerating the crisis to attract votes and prevent the loss of its parliamentary majority. Some suggest the government has based its campaign strategy on that of Taiwan's President Lee Teng-bui, who won re-election last month in the wake of Chinese military threats.

"Reports about the situation appear to be manipulated by the government for political purposes," said a US defence official in Seoul.

The Korean government has indicated its military forces have been placed on heightened alert, but Mr Park Yong-ok, an assistant defence minister, yesterday admitted military readiness remained at Defcon 4, the next-to-lowest level.

It's a matter of pride, and President Kim has hurt Taegu's pride," said Mr Kim Suk-won, who resigned as the Saenggyung chairman to stand as a candidate for the ruling New Korea party.

Prominent Taegu politicians, such as Mr Park Chun-kyu, have been pushed aside in the ruling party. Mr Park was speaker of the national assembly until he was forced to resign by Mr Kim in 1993.

Now standing as a candidate for the conservative opposition United Liberal Democrats, Mr Park is appealing to the city's sense of grievance. "Taegu is a government area for 30 years, but no longer," he said during a campaign stop in Taegu's famed herbal medicine market.

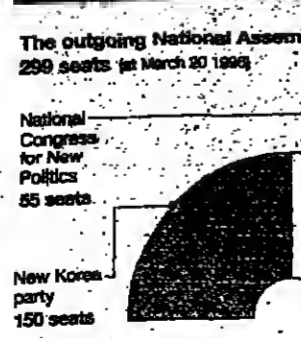
The closely fought election campaign in Taegu represents how regional interests and personalities, rather than ideology, dominate Korean politics.

Each of Korea's three main political parties has a strong regional base: the ruling party in the south east, the ULD in central Korea, and the centre-left National Congress for New Politics in the south west.

The National Congress for New Politics (NCNP) is a centre-left party established in 1995, and the latest electoral victory for its long-time coalition leader Mr Kim Dae-jung. The party has strong roots in the south-western Cholla region.

The Democratic party is a moderate grouping formed from the rump of the organisation that was headed by Mr Kim Dae-jung until he formed the NCNP in 1995. The party does not have a regional base. It is mainly supported by young urban voters.

The parliament



The outgoing National Assembly 299 seats as March 20 1996

only a third of the 32 seats in Taegu and the surrounding North Kyongsang province against the two-thirds held at the 1992 general election.

Public anger was further aroused when ex-presidents Roh Tae-woo and Chun Doo-hwan, who come from the Taegu region, were arrested last autumn on corruption and sedition charges. "Arresting one president may have been acceptable, but arresting two is too much. It's political revenge," said Mr Song Dok-chin, a Taegu resident.

"If I support President Kim too strongly, I lose a lot of my popularity," admits Mr Kim, the former Saenggyung chairman. "I have to tell my constituents that he has made a lot of mistakes, but he is leading the country in the right direction."

ASIA-PACIFIC NEWS DIGEST

Australia checks Aborigine funds

Australia's new conservative government is to appoint a special auditor to look into the financial affairs of indigenous organisations receiving funds from the Aboriginal and Torres Strait Islander Commission (Atsic), the Aboriginal organisation.

Yesterday's announcement follows alleged irregularities at a number of state-based Aboriginal legal services, and concerns of alleged financial mismanagement in other Aboriginal groups. Atsic handles a budget of A\$1bn (US\$750m) a year.

"If the special auditor is satisfied an organisation is not acting in a fit and proper manner in terms of its spending of public monies, a directive will prevent Atsic funding that organisation unless exceptional circumstances arise," Prime Minister John Howard said.

The government planned to amend the Atsic Act, to allow an administrator to run a group if it was deemed involved in alleged mismanagement of public money, or if Atsic failed to comply with government directives.

Mr Howard confirmed legislative changes would be made for appointment of the chairperson of Atsic to revert to ministerial selection. Under previous legislation, the appointment was to have become a matter of internal election.

The moves are likely to be controversial. Aboriginal leaders are concerned their right to self-determination should not be eroded.

Anxiety had been growing in Australia's white community that, despite the standards directed toward indigenous people, health and housing standards remain below the national average.

Last night, Ms Lois O'Donoghue, the present Atsic chair and much respected for her role in negotiating the historic Native Title legislation which was passed in late 1993, said the Atsic board would discuss the proposed changes next week. "The board may wish to make a public statement after these discussions," she said.

Green light for Japan sports car

Mitsubishi Motor has received approval from the Japanese Transport Ministry for its new small sports car, company officials said yesterday. The vehicle, equipped with a 1600 cc engine made by Mazda, had cleared safety, noise, emission and other requirements set by the ministry; officials said the approval allowed Mitsubishi Motor to produce the car on a commercial basis.

Mr Susumu Mitsuoka, president of the company, which is based in Toyota, western Japan, said his dream had come true. Mitsubishi Motor plans to increase production of the vehicle to 20 units a month from the present six, the officials said.

The ministry rarely approves cars developed by companies other than the main car manufacturers. *Kyodo, Tokyo*

Yeltsin to visit China for talks

Russia's President Boris Yeltsin is to pay a three-day official visit to China from April 24 for talks with Chinese leaders. He will meet China's President Jiang Zemin and other leaders and sign 10 bilateral agreements, officials in Moscow said.

On April 26, Mr Yeltsin will travel to Shanghai, where he is to sign an agreement on confidence-building measures along the Chinese border with the presidents of the former Soviet republics of Kazakhstan, Kyrgyzstan and Tajikistan, whose nations also border China.

Mr Yeltsin hopes closer ties with China will strengthen his hand in dealing with the US and Europe, which despite Russian protests, plan to expand the Nato military alliance to eastern Europe. *Kyodo, Moscow*

Meet L-Bank's bodyguards. The best security team around.



As the development agency of Baden-Württemberg, L-Bank is backed by the state with the lions in its crest.

L-Bank's credit quality is anchored in law. Not the law of the jungle, despite our lionine links, but the law of the Federal Republic of Germany. The force behind L-Bank's credit is the federal state of Baden-Württemberg, sole owner of L-Bank and an economic powerhouse of a state, even by German standards. Small wonder, then, that the bank is not comparable with any other bank next door. The close ties that exist between Germany's southwestern state and its development agency also make for effective synergies in day-to-day operations. As a symbol of these links, the lions from the state coat of arms, dating back to the medieval Stauffer dynasty, also appear in the L-Bank logo. With the might - and mane! - of a Landesbank Baden-Württemberg

ARTS

Cinema/Nigel Andrews
Cod-mythic tale of fatherhood

MIGHTY APHRODITE
Woody Allen
CITY HALL
Harold Becker
BROKEN ARROW
John Woo
NELLY AND MR ARNAUD
Claude Sautet

I first saw Woody Allen's Mighty Aphrodite at the Venice Film Festival, the perfect venue for this fiftal cod-mythic comedy. I kept envisioning it as a modern-dress Tiepolo painting. Here were a scatterbrained nymph (Mira Sorvino) and a menopausal demigod (Woody Allen) chasing each other across that action-packed human firmament called New York. And a Tiepolo title would surely do justice to the sense of some cloudy but overbearing subtlety? We could call it "The Battle Between Veiled Autobiography And Fiction" - Allen playing a loving foster father in search of the true parent of his three-year-old "son" - or possibly "Comedy Is Cast Out Of Heaven By Didactic Self-Portraiture."

Being an Allen fan is a difficult life. No sooner are you wowed by Manhattan than you are poleaxed by Stardust Memories. Just when you think he has been ground into the dust by Inherit the Wind, he soars skyward with Husbands and Wives. And having achieved cruising altitude with Manhattan Murder Mystery and Bullets Over Broadway, he goes into free fall again - albeit with Tiepolesque elegance - in this comedy of unclear intentions. Some scenes are passably funny, like Allen's attempt to nerve himself for a meeting with Sorvino's pimp. (She: "You're a coward!" He: "Only in actuality".) Other gags, running or otherwise, are careworn and ill-calculated. The Greek chorus that breaks into Brooklyn-Jewish vernacular is felicitous once, maybe twice, or thrice, but when they trip across Tarranina's teatro univo, for the umpteenth time, to the Broadway strains of "O-o-o-o-

something for me", we feel we have overdone on ethno-comical incongruity. We also wonder where this multi-strand film is tending - until the close when we have the clinching coda of the actor/author retreating into his own self-image as a perfect father. We see Woody, in an extended scene, shopping for toys. We see Woody reading fairy stories aloud as he sits in a loving three-way huddle with boy and wife. Perhaps the whole movie was conceived as a response to the judge who rapped his knuckles for his inactivity as a father? Perhaps we have been gathered for this buffet of jokes and plot whimsies so that we can hear the host's after-dinner speech in praise of his own caring, sharing parenting.

City Hall gives us a New York of a different colour. Not so much Tiepolo, more Edward Hopper after eating a can of jumping beans. Al Pacino plays the Mayor, determined to huff and puff around the city eliminating corruption, even as a little black boy's death in police-Mafia crossfire threatens to open a can of a different kind - worms.

Why was the convicted Mafia drug dealer out the streets at all? Might a word like bribery, or "bribery" in that jargonistic patois we call Pacino-speak, be pertinent? Did money pass from the Mob to the judiciary?

So many questions. And instead of sitting down to answer them under exam conditions, the film runs all over New York and New Jersey trying surprisingly enjoyable, despite the chaos of a five-man screenplay. Since most of the cast are on parole from Woody Allen movies - John Cusack as the Deputy Mayor and chief legworker, Judge Martin Landau, Democratic leader Danny Aiello - they know how to crack out lines. And since Pacino himself has now ascended to a higher Parnassus of acting, his every bark, shrug and line-reading is pure delight.

As an airforce pilot who steals two nuclear bombs during a test flight with intent to hold America to ransom, John Travolta in Broken Arrow has some serious questions to answer. First, where did he get that haircut? Bristling and changing colour in bright sunlight, it does almost as much acting as its owner and rather more than co-star Christian Slater. Secondly, when did Travolta and flying buddy Slater, who after being ejected from the bomber survives to stalk the desert as his friend's nemesis, receive their Teton skin grafts?

For all the fights, falls and explosions these two endure - and with ex-Hong Kong action prodigy John Woo in charge there are many - neither displays more than a cut lip and look of mild discomposure. This puts the burden of emotion on the audience: "what" the picture shows tended to process terror into hilarity.



Into free fall with Tiepolesque elegance: Helena Bonham Carter and Woody Allen in 'Mighty Aphrodite'

The most incredulous laughter accompanied the film's far-fetched final showdown and the appearance and antics possessive of Samantha Mathis as a sexpot desert ranger. Meanwhile the most admiring guffaw was reserved for Travolta's sleekly-timed rebuke to a trigger-happy henchman during a jeep chase: "Would you mind not firing at the thermodynamic weapons?" But then Travolta's timing and serio-comic flair are a joy throughout.

Broken Arrow takes implausibility and flies fast and high, careless of eluding radar. If it displayed any more judicious self-belief, it would be the very model of postmodernism. As it is, adding virtuosic effects and set-pieces to the hinds of Armageddon seriousness, it is that even more delectable thing: an action film that will satisfy both glibbie fans and scapegrace sceptics.

Claude Sautet's Nelly And Mr Arnaud, made it more occasion, could be set on another planet. Small lives describe tiny

seismic patterns in Paris apartments. When hard-up Nelly (Emmanuelle Béart) accepts a gift of money from a man she barely knows - the wealthy, elderly Monsieur Arnaud (Michel Serrault) - she feels bound to accept his further offer of a job typing out his new book of travel memoirs. As well as wages, Arnaud will offer wisdom, talk and tea. He will gaze over Nelly's shoulder, encouraging her to rewrite and edit. And he will peer a little more closely into her heart as she begins to transfer her love life from a lazy live-in boyfriend to Arnaud's young publisher (Jean-Hugues Anglade).

Less happens here even than in Sautet's recent A Heart In Winter, where love and misunderstanding grew slow as an icicle. Here, in a movie warmer if not faster, absence of drama becomes its own drama. Notes of mystery dance about in the shafts of poignant enlightenment about each other's lives and minds that the

young girl and old man share. And if Béart plays her Columbine a touch too passively Serrault - best known hitherto as chief scenery-chewer in Le Cope Aux Folles - is a richly subtle Pantaloon. Arnaud's entire life is sketched out in tiny shrugs, moans, sighs and wistful sarcasms: a one-time globe-trotter whose world has shrunk to a last unrequited love in a last unburied old age.

To realise how good this French film is, you need only see what an American does with same minimal plot tools. In Michael Tolkin's The New Age (18, National Film Theatre) Judy Davis and Peter Weller fall in and out of love as a pair of bickering Beautiful People in Beverly Hills. But Tolkin, who wrote The Player, puts almost no ironic or insightful distance between himself and his navel-gazers. The film ends up seeming less a looking-glass held to Lolushland than a hall of mirrors, reflecting the infinite complicity of self-love in urban California.

Opera
A borrowed 'Nabucco'

The latest building-block towards the Royal Opera's ambitious complete Verdi cycle is Nabucco, which arrived on Tuesday and will take its place in this year's Verdi festival in the summer. Like some of the other new productions planned for the cycle, it is borrowed, in this case from Welsh National Opera, where it raised hackles last September.

As yet it is early days, but the commitment to the operas from Verdi's "galley years" is looking ominously half-hearted. In the Festival last year, borrowed from Ludwigshafen, was a stilted affair. If Corsaro, due to be borrowed from Turin, has been replaced by a couple of concert performances, this Nabucco is a long way from being the strong argument in support of the opera that the Verdi festival should be standing up to make.

Have no doubt that there is a case worthy of arguing. Verdi's third opera may have its fair share of bouncy cabalettas and brass band marches, but as the final scene leads from the unaccompanied chorus "Immenso Jeovha" into Abigaille's intensely compressed death scene, it is clear Verdi has his sights on raising the old forms to a more exalted level. Perhaps the producer, Tim Albery, felt he was doing the same when he set the scene in a Nazi concentration camp, but it is all too easy to cheapen both by the association.

It probably will not console those who booed the production team to know that the worst excesses of the staging had been jettisoned on the way up from Cardiff. Despite leaving behind Nabucco's Diana Dors outfit and Abigaille's army fatigues, it still looks as though Albery and his designer Antony McDonald have raided the avant-garde producers' second-hand wardrobe (the men of the chorus find themselves stripping down from Klu Klux Klan to tasteful lime-green evening dresses and long black gloves).

The theme of the production remains the suffering of the Jewish people through into our own century (see Palestinian terrorists and Nazi gangs) though it has now been streamlined much to its benefit. The sets are gloomy and starkly modernist, and sometimes unhelpful aesthetically by keeping the singers too far back. But there was little justification for losing the intended conductor, Edward Downes, who backed out after announcing that he found the production unsympathetic, and the Royal Opera has done well with his replacement, Wladimir Jurowski.

Nabucco and Abigaille are played as pistol-wielding Babylonians, whose ammunition is an unceasing supply of decibels. Alexandru Agache's baritone has grown simply huge. There are enormous reserves of power residing in these lungs and it is a shame they cannot be harnessed to form long vocal lines in which the quality remains consistent. The result is that isolated phrases shake the foundations, but his main solo fall short of expectations.

It is unlucky for Nina Rantio that Abigaille's big moments come in the first half. Her thick, heavy, Russian soprano takes time to wind up its mechanism and in her main aria she was still in the process of getting the voice to move about and stretch up to the top notes (each high C came closer to its target, but none actually hit it). Her fearsomely powerful soprano is what we have come to expect in this role, though Verdi surely wrote for singing with more grace and agility. Leah-Marian Jones as Fenena complemented her with a bright, clear mezzo; Dennis O'Neill made a suitably Italianate Ismaele. But it was Samuel Ramey as Zaccaria who brought distinction to the evening by ignoring all that was going on around him and concentrating on the core virtues of Italian bel canto style - an elegant line, even a few decimations, vocal qualities that would have been recognised in the 1840s. An "authentic" Nabucco would still be an eye-opener.

Richard Fairman
Further performances until April 27.

The Sturdy Beggars company has mounted an effective staging of that most challenging and expressionistic of Strindberg's works, A Dream Play (1901), in the charmingly glass-roofed Bridewell Theatre off Fleet Street. Light from the sky still entering at the start of the evening may be aptly taken to symbolise the descent of divine Indra's Daughter from the ethereal realms. To earth she comes, as Agnes, to survey the immense panorama of human suffering, to understand what it is like to live in a world of fact rather than thought, to exist.

Strindberg's extravagant flights of Buddhist-Christian fantasy, whose dream-logic presupposes that the world is essentially a dream and that the theatre is no less real than the world, may not appeal to all, but his main images have a peculiar fascination: the castle that seems to be growing in the distance; the ever-shut opera house door with the clover-shaped hole behind which may lie "the riddle of the world"; the officer pacing in front of that door for seven years in pursuit of his singer-bridge;

Strindberg dramas
Dream-logic and a power-struggle

the officer's inexplicable return to school to be re-taught his multiplication tables. They are more often mundane, comic and, indeed, autobiographically-founded images than mystical ones; and no matter how far-fetched the dramatic thinking, Strindberg cannily eludes pretentiousness. Jonas Finlay's production, using his own translation, gives us two acts of respectively eight and six continuous scenes and comes across as admirably concise. The simple set - a candle-bearing tree, a huge tilted wooden drawer, a semi-transparent screen - serves perfectly, and adroit use is made of trapdoors and of sound-effects. Small-scale though the staging is, one does not feel that Strindberg's elaborate conception is being scamped.

There are a couple of theatrical coups (the lurid assembly line of torture, the naked Poet in an actual mind-bath), and in any case the cast is rather large, a dozen. Notable among them is John Baxter's capering, Cleeze-like Officer; Michael Woodcock's catavous Advocate, Luke Shaw's Strindberg-lookalike Poet, and Alexandra Mathie's warmly sympathetic Agnes.

Paul Driver

The Young Vic's new staging of Strindberg's Miss Julie is a disappointment. Because the director is Polly Teale - who has a good record for dramatically vigorous stagings of period works - it was easy to hope for more. There is an excellent set by Robert Innes Hopkins, a fresh translation by Meredith Oakes, and a first-rate performance by Cara Kelly as the maid Christine.

But these do not suffice. Teale over-directs the wordless episodes, and under-directs the spoken passages. The production's Big Moment occurs when Miss Julie and her father's wife, Jean, have some prettily stylised sex on the kitchen table. It is possible that, by putting onstage what Strindberg left out, that Teale unbalances the power-struggle that goes on between upper-class Miss J. and working-class J. But it is definite that this sex is too stylised to convince. Particularly over-artful in its supposed artlessness is the way that Susan Lynch, as Miss Julie lying on her back on the table and yielding to sexual excitement, sweeps a vase of red flowers over with her arm. And why pay such attention to the big physical scenes unless you get the little ones right? Lynch's upper-body posture is so poor that nobody could believe her as an upper-class girl of the last cen-

tury. Her face is often stiff, ill at ease, inexpressive.

Meanwhile the words - the level on which Strindberg's real conflict takes place - between Julie and Jean are under-inflected. As Jean, John Hannah is at his best whenever Julie is away; he has edge, nuance, wry humour. Oakes's translation works fluently without drawing attention to itself. Hopkins's set gives us a believable kitchen interior and centrally placed, the crucial large flight of stairs to the realms above where Miss Julie has her home and where her acquaintances are dancing. Kelly's Christine is wonderful to watch just when she is carrying a plate across the stage, or stands and listens to Jean. Her acting has none of the calculated "expressiveness" to be found elsewhere in the staging, but it is simply full of life, a life lived beneath stairs, a common-sense practical life with no special ambition, an ordinary life whose simple decency transcends the sexual politics played out by Jean and Miss Julie.

Alastair Macaulay
Further performances until April 27.

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Samuel Brittan

Some ruminations on risk

Even well-educated people find it difficult to reason about matters of probability and fall back on what has been recently publicised or can be expressed in images

There is little I can usefully add to the millions of words already written about mad cows and the reactions to them of excitable human beings. The interesting aspect of this episode is the exaggerated reaction to very small risks - and indeed the inability or unwillingness of many so-called educated people to reason in terms of probabilities. Quick public judgments are often based not on any kind of risk assessment, but on what psychologists call the "availability error" - that is, whatever first comes to mind. This in turn is determined by what has been recently publicised, sounds dramatic and can be expressed in images rather than abstractions. Many readers will remember the film *Jaws*, about a man-eating shark. The screening of the film caused a sharp drop in the number of swimmers off the coast of California, where a shark can occasionally be found. Yet the risk of swimmers being snatched up by a shark is very much less than the risk of their being killed in a road accident while on the way to the coast. The psychologist Stuart Sutherland, in a paperback entitled *Irrationality*, analyses the fears, wishful thinking and prejudices which so often divert people from logical thought. Most of the book takes for granted the conventional methods of reasoning used by the more numerate of social scientists. However, I became a little more suspicious when he waxed enthusiastic about techniques such as "cost benefit analysis" and "multiple regression analysis". Those who follow economic matters constantly come across references to these techniques and should be aware how often they have been misleading. Multiple regression analysis, for example, has underpinned most of the short-term economic forecasts behind so many recent policy errors. At this point I thought it only fair to give a hearing to a heretic. John Adams, a reader

in geography at University College, London. He is well acquainted with modern methods of risk assessment, but is convinced they often lead us astray. His point is that specialist consultants often do not know the risks themselves and hide this from the public or even themselves. He has been involved in fierce controversies about safety belts in cars, which serve to illustrate the point. Most of the original arguments in favour of compulsory seatbelts were based on a fall in car accidents in Australia after they were introduced there. So far so good. Indeed Adams rebukes the anti-safety belts lobby for at first relying too much on libertarian arguments against "criminalising self risk". His main point, however, is that the conventional argument for prohibition ignores the human factor. If drivers know they are protected by safety belts they will be just that little bit more careless. So the saving of lives in accidents will be offset by the greater number of accidents which occur. This is known as the "risk compensation hypothesis": it is like taking fewer precautions to avoid an infectious disease because one has been inoculated. It is an open question whether the resulting increase in careless driving more than offsets the benefits of safety belts. Such arguments are rarely conclusively settled. It is enough to say that the advocates of compulsion are now a little more cautious in the claims they make. But you have to be numerate in the conventional sense to see the force of Adams' arguments. For he does not need to say that once safety belt laws are enforced people drive around like maniacs. An increase in carelessness so small that most drivers would not be aware of it could be sufficient to more than wipe out the savings in lives from seatbelts. One common intellectual ploy to defuse arguments on



probability is to make a distinction between risk and uncertainty. Risks are calculable and can be insured against - for instance, the chance of a normal single die throwing a six is one in six. Uncertainty occurs when you do not even know what the risks are - as would be the case if one had no idea what was on the faces of the dice. All or none might be sixes, it is impossible to estimate the likelihood of any particular outcome. This distinction has never quite convinced me since there are few situations where you can not obtain some vague idea of magnitudes. Suppose that you are considering investing in an oil pipeline in a former Soviet republic. It might be blown up or a new regime might confiscate it; but a little study of history suggests that the chances of this happening are well above zero, but much less than 100 per cent. So already there are some limits. On the other hand, there can be some doubt about even a conventional risk calculation. The odds against being killed in a road accident on the way to a Californian beach are themselves subject to a considerable margin of error, however specifically you try to pose the problem in terms of distance travelled, weather conditions and so on. It seems to me that there is a spectrum between pure risk - for example, when we are dealing with properly made dice - and utter uncertainty, when we have no idea what is going to happen. But I would like to move to a rather different example where the odds are said to be poorly understood. That is the addition of millions to the UK National Lottery. The critics assert that the punters do not realise how heavily the odds are stacked against winning enormous prizes. But this need not be the case. Whether one wishes to pay for a tiny chance of a huge fortune is a matter of personal taste. There may be a tendency for poorer and less educated people to be more inclined to have a flutter on the lottery. But one should look at the opportunities open to people: a successful bet against high odds may be the only possibility available for many to jump to a higher living standard (unlike professional and business people who have other opportunities for advancement in their own careers). The more sophisticated objection to the lottery is that it is not a fair game. In other words, the takings are not

distributed in prize money, even allowing for administrative costs and the operator's profit. A hefty slice goes to good causes approved by the government. For this reason it would be illogical to invest in the lottery if such huge prizes were available in alternative forms of betting that returned more of the stake to the punter. But they are not. By selectively legalising its own giant betting shop, the state has got there first. If full liberalisation of betting had been implemented, then either the present prizes would not be available, or one private corporation would have established a monopoly position and taken advantage of the economies of scale obtainable in high-stake betting. Finally, a confession. I have been avoiding beef - not obsessively but where I have had a clear choice, as in restaurants. I can rationally see my action even if the odds against infection are as high as I would guess them to be. The main reason is that although I like roast beef or a steak occasionally, it is almost no sacrifice to eat poultry, game, fish or even pasta instead. It is not like ice-cream or patisserie, the absence of which would make me feel really deprived. Why suffer from even extremely remote neurotic anxieties when the cost of assuaging them is so small? Having given a warning that the assessment of risk is often itself controversial and that it is much more difficult to apply impersonal logical principles to uncertainty, I believe it is still better to be numerate than innumerate. Further reading: *Innumeracy* by the American mathematician J. A. Paulos (*Penguin* £5.99). Look also at the sequel, *A Mathematician Reads the Newspaper*, and *Beyond Numeracy* (*Blackwell* £5.99). *The book does not do not have to be adopted at long computations to follow mathematical ideas. I wish somebody would do the same for economics. Irrationality* by Stuart Sutherland (*Penguin*) and *Risk* by John Adams (*Corgi*) have been discussed. *The Theory of Choice*, by S. H. Hodgson (*Blackwell*) is a lively introduction to the controversies in the area

Personal View · Chris Patten

Nothing mysterious about Asia's success

Free trade gave the region its big break. Now it must match the west's freedom and flexibility

The writer Matthew Arnold once declared that "miracles do not happen". That is exactly how I feel about economic miracles. Of course, what has happened in parts of south and east Asia in the past 40 years is astonishing. Of course, what is happening economically in China is impressive. But we should not dismiss all of this as miraculous. If there ever was an economic miracle, it happened in England in about 1780 when an agricultural and industrial revolution defined the beginning of the modern era. Because Britain had no one to learn from, it took almost 60 years to double per capita output. From then on, the pace of economic change accelerated. It took the US 30 years after 1840 to double its per capita output. It took Japan 33 years after 1880. It took South Korea 17 years after 1965. It took South Korea 11 years after 1970. And China managed it in just 10 years after 1978. What has happened in Asia during the past 40 years is not at all inexplicable; it has happened before, and we understand the processes at work. It is not some inscrutable eastern mystery; it repeats western experiences which had nothing to do with Confucianism. Above all, it is not a threat to the mature economies of Europe and North America; it has expanded our economic horizons and our business opportunities. Inevitably, I see Asia through the prism of Hong Kong, which is almost certainly the world's freest economy. Hong Kong's and Asia's economic success has three principal components: no miracles - just ambition, economic liberty and free trade. By ambition, I mean the

sheer will to succeed, which is so characteristic of the people of Hong Kong and of most of its neighbours. No one in Asia sniggers behind their hand at those who succeed or at the very notion of progress. For these ambitions to be realised, Asian governments had to grant their citizens economic liberty. At the end of the Pacific war, Hong Kong and its neighbours were in a poor state. But in Japan, South Korea, Taiwan, Hong Kong, Thailand, Indonesia, Malaysia and Singapore, governments gave their people the economic liberty they needed. This is an experience which has more recently been repeated in China and Vietnam. But it was free trade which gave Asia its big break. The new economic era worked because the US economy took off after the war and pulled the rest of the free-market world with it. Access to western markets made possible the export-led growth of the east and south-east Asian economies. What of the future? I am not so sure, but I do know that we should dispense with such glib notions as the 21st century being Asia's century in some exclusive or overwhelming way. Let me offer a few thoughts, not entirely my own, about the challenges facing Asia in the next century. The first wave of successful Asian economies are now approaching maturity. Hong Kong, Japan and Singapore must now face the challenge not simply of catching up with the mature, technology and information-based economies of the west, but the equally arduous challenge of keeping pace with them. They must match the other advanced economies in what one Asian economist has called "quality-driven" growth rather than the "quantity-driven" growth that has so far characterised Asian economic development outside Japan. Quality-driven growth puts a premium on inventiveness, creativity and technological flexibility. The communities which will be best equipped to compete on these terms will be

those that can provide social and political liberty in addition to economic liberty, those that can handle social and political pluralism. You will not compete successfully for quality-driven growth if you attempt to restrict the flow of financial and other information, if you lock up your scientists because their independence of mind leads them to inconvenient political conclusions, or if economic efficiency is distorted by cronyism and corruption. Toleration of dissent, the rule of law and a free press are real comparative advantages in the age of quality growth. The second and third waves of Asian development have yet to peak, and they face another challenge. As they grow, China, India and Indonesia will have to find ways to deal with the immense pressures of population growth. Within 20 years, there will be seven Asian cities with populations in excess of 30m. Will these countries be able to make the infrastructure investments necessary to deal with the pollution, the traffic congestion and the massive pressures for housing and employment, which seem to be inevitable? One writer has argued recently that the challenge for Asian communities, once their economies have ridden the first wave of development, will be to overcome what he has called the continent's institutional weakness. He sees this in terms of opacity in corporate governance, a lack of political accountability, and inadequate physical and social infrastructure. There are also growing doubts about whether Asian nations can develop the necessary security structures to enable them to maintain their own balance of power. The jury is still out on all of this, but the rest of us should be hoping and praying that Asia does get a very big stake in Asia's stability and its success. The author is governor of Hong Kong. This article is extracted from last night's 1996 Roy & Bridge memorial lecture at the Bank of England.

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LETTERS TO THE EDITOR

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German pensions create brake on employment

From Mr Konrad Tomica.
Sir, Your article on Germany's pensions ("The storm on the horizon", April 9), in which you state that "a boost for capital markets" should have gone further. The German company pension system is not only "a significant structural hindrance to the development of German financial markets" but also an obstacle to labour mobility and, thus, a brake on employment. To be able to transfer their company pension entitlements most workers with standard employment contracts must, under German law, have completed at least 10 years with an employer and be over 35 years of age. (Rare exceptions are, for example, where someone in a senior position can contractually secure a better deal or where an employer is prepared to give a prospective employee - who by moving would forfeit say six pension years - a similar number of years' "pension credit".) Even if one is fortunate enough to be able to "keep" his or her pension entitlement, there is still a loss resulting from the break in continuity. What usually happens is that, when someone leaves a company, the pension entitlement will be actuarially determined and frozen, often in a type of life insurance. For example, if, after 15 years' service with XYZ GmbH, 45-year-old Herr Schmidt is eligible for a pension of DM2,000 per month when he leaves his company, this entitlement will be frozen at this amount until he reaches the normal retirement age of 65. Only then will he receive annual increases. At his next employer he will have to start all over again. This means those who willingly or unwillingly change jobs will often end up with only a minimum state pension, as mentioned in your article. The British or American method of employers and/or employees continuously paying into an institutional pension fund is virtually unknown in Germany. This is one reason that tends to make German workers reluctant to move and often to make the best of a bad job. It is virtually impossible to fire German workers at the best of times; so it is not uncommon to see disheartened workers just sitting out the last two or three years that they need to complete their pension decade - thus blocking the way for other workers who might otherwise be hired. It is ironic that, in a country which claims that its over-restrictive labour laws and trade union agreements are to protect the interests of the individual, one finds such a glaring anomaly. Konrad Tomica, Spessartstr. 2, 61381 Friedrichsdorf, Germany

Legal haze

From Mr Andrew Dixon.
Sir, Mr Shizuo Ito believes "even a child knows that smoking is bad for the body" ("Smoke haze over Japan sell-off", April 6/7). If so, why is he representing four smokers who are blaming Japan Tobacco for not warning the consumers of the health hazards of smoking?

Employee allowance aid to job creation

From Mr Jan-Peter Olters.
Sir, With wage competition being deemed politically undesirable and social clauses highly controversial, the solution to the wish - as expressed during the recent Group of Seven job summit in Lille - to design a "third" (distinctly non-American) way of creating new, secure, high-income, and full-benefit jobs might lie in some form of an "employee allowance". Analogous to family-supporting child allowances, it reduces a company's direct tax burden proportional to its domestically employed full-time labour force. Beyond creating significant recruitment incentives for the private sector, such a tax scheme would allow governments to prevent the erosion of social standards and outward investment towards low-wage countries. It would permit them to reduce the tax burden only for companies that act in a "socially conscious" fashion - that is, it would benefit companies which hire and penalise those which fire. Moreover, with a resulting decreased pressure on the public purse, an employment allowance-type job creation programme is, potentially, neutral in its fiscal implications, while being economically beneficial to companies, employees and the still unemployed. Jan-Peter Olters, 163 rue St-Paul est, apt D, Montreal PQ H2T 1G6, Canada

International financial support a key to ensuring Angola peace

From Dame Margaret Anstee.
Sir, I was glad to see Angola's plight highlighted in Michela Wrong's report "After the war, the hell drags on" (April 2). It is certainly high time that the Angolan government adopted more stringent economic policies, but the issues are complex and closely linked with the peace process. Angola finds itself in a cleft stick. Without economic revival and genuine prospects of a decent livelihood for the thousands of soldiers who have to be absorbed into civilian life, the peace agreement signed in Lusaka in November 1994 will remain fragile. And without some acceleration of financial institutions, especially the International Monetary Fund, should not imperil that peace process. Demobilisation is likely to take so long that it is proposed initially to absorb a much higher number of Unita troops than originally intended into the new armed forces and demobilise them from there. This will entail a higher budgetary cost than anticipated but one vital to peace and political stability. Similarly, the international community can help by linking provision of aid for reconstruction and development to tangible progress by both sides in implementing the measures agreed in Lusaka. As we are seeing in Bosnia, the road to post-conflict reconstruction and development is extremely rocky and uncertain. In the case of Angola, there are, at last, some encouraging signs that a lasting settlement may now be possible. They must not be jeopardised. Margaret Anstee, (former) under-secretary-general of the United Nations and special representative of the secretary-general in Angola 1992-93), c/o The Walled Garden, Knill, Nr Presteigne, Powys LD6 2PR, UK

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COMMENT & ANALYSIS

FINANCIAL TIMES

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Thursday April 11 1996

The ins, the outs and Emu

The purpose of economic and monetary union is to strengthen the economic and political integration of Europe. Unfortunately, in the debate about the prospective relationship between Emu's "ins", "pre-ins" and "outs", the single market and even European co-operation are in some danger of being sacrificed to Emu. The informal meeting of the EU's finance ministers and central bankers in Verona next weekend must prevent this from happening.

The reason for the difficulty is clear: if the convergence criteria in the Maastricht treaty were applied strictly, the first wave of entrants into Emu, in 1999, would consist only of currencies that already have a history of stability against one another - the D-mark, the Dutch guilder, the French franc, the Austrian schilling and maybe the Belgian franc. Emu would then fail to do much, if anything, to reduce exchange-rate instability.

For those who regard such instability as anathema, this failure would rob Emu of most of its purpose. Their suggested answer is a new and tougher exchange rate mechanism, with fiercer enforcement mechanisms, perhaps including restrictions on budgetary transfers to the bad boys or even barriers to free internal trade.

Such ideas are illegal, unnecessary, counterproductive and unworkable.

The ideas are illegal, because the single market is an acquired right of all EU members. Access to it is not a privilege dependent on willingness or ability to join Emu. To suggest that it could become so amounts to a questioning of the entire legal basis of the EU.

Indeed, one of the conclusions of recent studies is how modest is the impact on trade of even quite large short-term price movements. The ideas are counterproductive because the costs of fragmenting the single market would outweigh the benefits of currency stability and the political costs of punishing outsiders would exceed the advantages of making them toe the currency line. It is difficult to imagine anything more threatening to EU harmony than to punish countries twice for their failure to make the Emu grade.

Reciprocal commitment

Finally, the ideas are unworkable, because a tight ERM cannot function without strong reciprocal commitment by the European Central Bank. But the Germans are determined that any new ERM would rule this out even more than does the present one. In his FT interview today, for example, Mr Hans Eismeyer, president of the Bundesbank, makes clear his determination to avoid large-scale intervention by the European Central Bank in defence of an inappropriate exchange rate.

Exchange-rate stability would then depend on the credibility of the unilateral commitment by a member state that had either failed the convergence criteria or had chosen to stay out of a single currency. Only a wide band arrangement, such as the present ERM, could be envisaged, not because it would work when challenged, but because it would not be challenged that often. Even so, when a currency did reach the limit of its bands, changes in monetary policy would succeed in defending the exchange rate only if they seemed consistent with domestic economic objectives. This being so, domestic stability must be the main aim.

The relationship between the ins and outs is potentially very dangerous. But the danger is not that the outs will steal a march on the ins by competitive devaluations. It is rather that the ins may be willing to sacrifice the single market and even the workability of the EU to secure control over the exchange rates of the outs. This is the danger to be avoided by the ladies and gentlemen meeting this weekend in Verona.

Devaluation myth

The ideas are unnecessary, because competitive devaluation is a myth. Member states have devalued in recent years either because they made a mess of their own affairs or because they found the monetary policies pursued by the Bundesbank far too restrictive to be acceptable. In the former case devaluations were inescapable; in the latter they were appropriate. Moreover, currency movements do not make free internal trade impossible or undesirable.

Securing Japan's defence

Most Asian leaders still do not like to admit it too publicly, but recent events in the Taiwan Strait and tension on the Korean peninsula have been a salutary reminder of the need for a continuing US security presence in the region. At next week's summit, president Bill Clinton and prime minister Ryutaro Hashimoto thus have an extra incentive for reaffirming their commitment to the Japan-US security arrangements on which that presence depends.

The task will not be easy. Trade issues are finally moving away from centre stage in the US/Japan relationship, but the security leg has shown signs of wobbling now the cold war is over. Opposition to US bases on Okinawa was exacerbated by last autumn's rape of a schoolgirl by US soldiers. The public in both countries is too little aware of the importance of the alliance. The US worries that Japan is unwilling to pull its weight in security matters.

There are some encouraging signs. Japan has agreed to supply the US military with spare parts and a larger range of services. But this symbolic move, expected to be enshrined in a fresh defence agreement announced during Mr Clinton's visit, does not remove the need for a broader review of roles in the region.

Japan must again rethink the constitutional constraints on its self-defence forces. But both sides must proceed with care as well as determination. Having promoted Japanese pacifism after the second world war, the US cannot now complain too loudly about its lack of belligerence.

Calming factor

The US desire for Japan to play a more active security role must also be offset by the reluctance of Asian countries to see Japanese forces freely deployed in the region. If North Korea were to invade, South Korea would rely on US support. Given memories of occupation, it is difficult to see Seoul welcoming Japanese troops on to its territory. There is also danger in encouraging extreme elements in Japan which remain committed to nationalism and less so to pacifism. A continuing US presence is a calming factor, as it

eases some of the internal pressures for Japan to re-arm.

The first part of any reassessment of the security ties must involve US recognition that there are limits on what Japan can do. The second part is for Japan to accept that those limits lie somewhere beyond its present contribution. To a sceptical US public the relationship will always seem lopsided if Japan continues to hide behind constitutional constraints in offering only lightly armed and grudging support for UN peace-keeping exercises.

A good deal

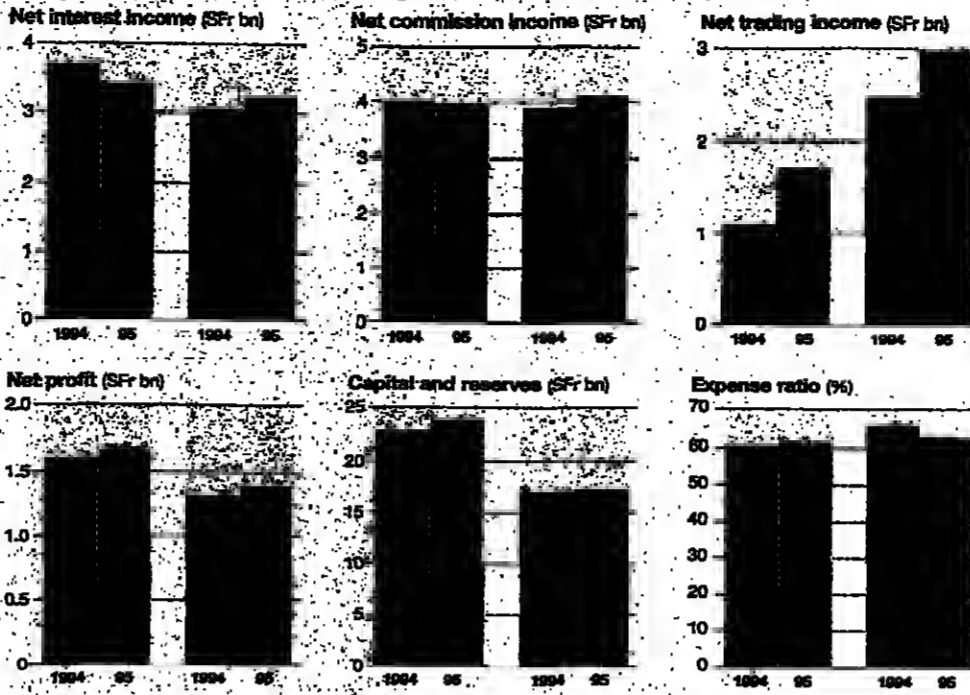
This requires a more open debate on defence policy than Japan has yet undertaken. Last November's review which promised a cut of 20 per cent to 145,000 in defence personnel commanded a consensus that for the first time involved the Socialist party. But there is a need to go further. The Japanese government must convince its own people that the deal whereby the US provides security in return for bases is a good one. That will reinforce its argument that, despite local opposition, US forces should remain in Okinawa - a vital staging post if they are to play a wider regional role.

More important, Japan must revisit the interpretation of the constitution which says that its self-defence forces may respond only to a direct attack on Japan itself. If Japan is to be a more equal partner for the US, it must be prepared to embrace the concept of collective defence and show greater willingness to play some part in common actions such as the Gulf war.

The trouble is that debate on this issue remains difficult. There are fears that it might split the governing coalition or the Liberal Democratic party itself. But in avoiding the debate, Japan's ruling elite risks international embarrassment and internal agonising the next time a crisis strikes. Japan's political leaders should seize the initiative, launch the debate now and steer it towards the appropriate conclusion. The Japan-US alliance - and with it the security of the whole Asian region - would end up stronger as a result.

Thinking of linking: the courting couple

Union Bank of Switzerland and Credit Suisse: the engagement snapshot



Sources: Swiss Bank Corporation, FPI Securities Data, William M. Mercer International, Ecol Financial

After the event: where the merged bank would stand

Syndicated credits	Top 10 banks by market capitalisation		
Top arrangers 1995	Sbn		
Chase Manhattan*	272	Bank of Tokyo-Mitsubishi	104
J.P. Morgan	129	Industrial Bank of Japan	64
Citibank	117	Sumitomo Bank	63
UBS and CS	77	Fuji Bank	61
Credit Suisse/CSFB	46	Dai Ichi Kangyo Bank	60
BankAmerica	42	Sanwa Bank	57
*Chase and Chemical combined		UBS and CS	41
International bond issues		Citibank	38
Top bookrunners 1995	Sbn	Sakura Bank	38
UBS and CS	46	Chase Manhattan*	31
Merrill Lynch	34	*Chase and Chemical combined	
Nomura	29	Investment managers funds under management	Sbn
CSFB	29	Fidelity	288
SSC Warburg	28	BZW*	233
Daiwa	24	UBS and CS	175
		Capital International	154
		State Street Global	139
		Zurich Investment**	132



Steep mountain to climb

A plan to merge two Swiss banks to establish one of the world's most powerful financial institutions faces serious obstacles, says Ian Rodger

The revelation this week that Switzerland's two largest banks are discussing a merger that would create one of the biggest global financial institutions has startled bankers across the world.

A Zurich newspaper revealed on Tuesday that CS Holding, the group built around the Credit Suisse bank, had proposed to the Union Bank of Switzerland that the two explore the possibility of a merger.

Pew Swiss analysts take the proposal at face value, even though in Switzerland, as elsewhere, big banks are facing an urgent need to cut costs in the face of intensifying competition. They see too many legal and practical obstacles for two banks that play such important roles in a small country like Switzerland.

"In theory, it looks great, but the mix would not be a triple-A bank any more," Mr Hans Kaufmann, banking analyst at Bank Julius Baer in Zurich, says.

The merger would certainly result in some impressive statistics. The merged bank would be the second largest in the world in terms of assets, behind the recently merged Bank of Tokyo-Mitsubishi Bank. It would be one of the world's largest fund managers, with over \$600bn under management. And it would have significant market shares in most investment banking businesses in Europe and the US.

At first glance, the benefits would appear to be considerable, especially in their international businesses. UBS is a strong player in equities while Credit Suisse subsidaries, First Boston and CS First Boston, are leading bond market players. UBS is weakest in the US where CS First Boston is strong.

In Switzerland, however, where a wave of protest against the idea of a merger broke out yesterday, the combination would cause considerable misery. Both banks have overlapping retail networks, and analysts suspect nearly half of their combined 750 branches would have to close, with substantial redundancies among the 16,000 employees.

"It is politically not possible," another Zurich banking analyst said yesterday.

The new bank would expect to lose business in Switzerland to other local banks as business customers spread their custom.

Legally, a merger would face daunting hurdles: under UBS statutes, it would have to win votes representing two-thirds of the total equity capital. And the Swiss cartel commission would be expected to look critically at a merger that would result in a single bank having dominant shares in many retail activities.

One analyst said one of the banks would probably be forced to try and sell its retail network, but he anticipated few bidders for a presence in Switzerland's heavily overbanked domestic market.

Shares of both groups, which had jumped on the news on Tuesday, fell back yesterday while those of Swiss Bank Corporation, the other big Swiss bank, rose. Swiss banking analysts are now becoming increasingly sceptical about the proposal.

They see it as yet another strange twist in the epic governance battle between the UBS board and its largest shareholder, the maverick Zurich broker, Mr Martin Ebner.

It is no coincidence, they suggest, that it has come out only a few days before what is expected to be a tense UBS annual shareholders' meeting.

Mr Ebner, whose BK Vision investment fund has roughly a 5 per cent stake in UBS, has tied the bank up in the courts for nearly two years challenging its plan to create a single class of shares. He objected to the conversion because UBS offered no compensation to holders of registered shares for the extra voting power they enjoyed.

The plan was approved by a slim margin at a shareholders' meeting in November 1994. But Mr Ebner won an injunction blocking implementation and charged UBS with improperly buying large blocks of its shares to influence the vote.

This time, Mr Ebner is calling on fellow UBS shareholders to reject the nomination of Mr Robert Studer, the bank's former chief executive, as chairman. He argues that Mr Studer failed to rise to the challenges facing the bank in his seven-year term as chief executive.

The merger proposal, with its threat of redundancies in Switzerland, comes at a convenient time for UBS. The UBS board would probably win the allegiance of many Swiss investors, including that of employees, if the promised statement after its board meeting today rejected the merger. Many observers suspect UBS leaked news of the merger talks.

For its part, Credit Suisse may have sensed an opportunity to improve its own prospects through a merger. Its profits have been lacklustre in the past two years as a result of a costly 1992 acquisition of Swiss Volksbank, and troubles at its CS First Boston

investment banking subsidiary. And even if Credit Suisse is rebuffed, the public disclosure that it initiated a discussion might encourage other potential partners.

"Credit Suisse can hardly shout, 'Help! Help!', but the effect is basically the same," a Geneva banking analyst said yesterday. Analysts agree Credit Suisse would stand in gain most from such a merger, a view reflected in the much greater rise of its shares yesterday after the announcement.

Whatever happens to the merger idea, both banks must carry out substantial restructuring in the next few years to reduce their costs. The ratio of operating costs to revenues of both is significantly higher than that of the best US banks.

"UBS is strong enough to carry out the restructuring that will be needed on its own," Mr Kaufmann said. "But Credit Suisse's flexibility is very restricted by its small equity base."

Rivals not quaking with fear yet

How many banks can hope to survive to the end of the century with their ambitions to be global financial powerhouses intact? If a merger were to take place between Union Bank of Switzerland and CS Holding, the two largest Swiss banks, it would certainly create a financial giant with a claim to be one of the contenders.

But rival investment and commercial banks were yesterday far from overawed by the prospect of a UBS-CS combination.

A merger of the two banks would have the scale many bankers think will be necessary to compete. Its market capitalisation of more than \$400bn would rank second only to Citicorp among non-Japanese banks - ahead of Chase Manhattan, which since its merger with Chemical Bank has been telling investors how important size will be in global financial markets.

CS's control of CS First Boston, the Wall Street investment bank, also provides the bridgehead into the US wholesale banking market

that other European banks have found so difficult to establish. "Unless you can be coherent about the US, you aren't going to be credible as an investment banker," says one US investment banker.

In fund management, a merger would create a huge business - possibly the largest fund manager in the world. Statistics compiled by William M. Mercer, the pensions adviser, suggest that the combination would rank third in the world, with \$175bn under management, behind Fidelity and BZW.

But neither Swiss bank publishes figures, and Mercer's estimate almost certainly understates their private trust funds managed in Switzerland. Some Zurich bankers calculate that UBS alone has between \$400bn and \$650bn under management.

UBS-CS would also be a formidable presence in bulk businesses, such as custody of securities and transmission of payments, where size can reduce processing costs.

These are the kinds of attributes that a European bank is going to

need if it is to break into the "global bulge bracket", the elite international banks who dominate global primary and secondary markets, and command the lion's share of corporate customers' fees.

"The financial rewards are reserved for the first-line players, and the risks are the same for everyone," says Mr Martin Owen, chief executive of NatWest Markets, the investment banking arm of the UK's National Westminster Bank. But in the mathematics of investment banking, it is not clear that one plus one will necessarily add up to two.

Mr Georges Blum, chief executive of rival Swiss Bank Corporation, warned as much last month, when market rumours suggested his own group might merge with UBS. He said bank mergers did not offer the same benefits as the alliance between Citibank and Sandoz in the pharmaceuticals industry. "We have the same goals, the same strategies, the same customers".

Competing banks warn that the cultural differences between UBS

and CS would be particularly hard to overcome.

UBS, which unlike its Swiss competitors has retained an AAA credit rating - the highest possible - has always operated under much tighter rules for credit and risk control. That might sit ill with the free-wheeling derivatives traders of Credit Suisse Financial Products.

UBS has also insisted on completely integrating its investment banking operations within the group, avoiding the creation of a bank within the bank. CS, on the other hand, only owns a 68 per cent stake in CS First Boston, though it controls all the voting stock.

Rival bankers appear unworried by the prospect of a merger. "Nobody is going to start quaking for at least a couple of years," said one London banker yesterday. "They would have to take their eye off the ball while they managed the merger, and would tend to stumble for a year or two."

George Graham

OBSERVER

The cow is in the post

One place Britain's benighted cattle farmers can count on a bit of sympathy from is Spain.

For almost 30 years Spanish pig breeders went through the same kind of trauma with pigs as the UK is now going through with cows. Restrictions on exports of pork products from Spain - imposed in 1990 because of an outbreak of African swine fever, apparently harmless to humans but fatal to pigs - were finally lifted by European Union authorities only in November last year.

Now the regional government of Cantabria in northern Spain, one of the main livestock areas, is extending a helping hand to the UK in its mad-cow crisis. José Alvarez Garcedo, its agriculture chief, is proposing to help rebuild Britain's cattle stock.

He says Cantabria has the capacity to export between 25,000 and 30,000 head a year, and is inviting UK experts to inspect the sanitary conditions of its herds of Friesian dairy cows and other breeds. The twice-a-week Santander-Plymouth ferry service could be used to re-colonise British farms, he suggests.

All this is not pure altruism, of course. The idea is that the UK market will boost prices for Cantabrian cattle, which are already exported to France and

Belgium as well as other parts of Spain.

Perhaps the UK could reciprocate by offering the Spanish a postal service. Alvarez Garcedo says he wrote to the British embassy in Madrid setting out his proposal on March 28; the embassy said yesterday it still hadn't received it.

History makers

The late François Mitterrand's dream of creating an eponymous research foundation is to be realised. The François Mitterrand Institute will live at an apartment in the chic fifth arrondissement in Paris, and will begin life with funds of FF1m, half from the ex-husband of state's friends, and the rest generously provided by the French government.

The objectives of the foundation are "to contribute to the knowledge of contemporary French political and social history". It's already making a contribution to historical research - its list of 13 founder members includes Mazarine Pingeot, Mitterrand's daughter by a mistress, whose existence was only acknowledged in late 1994.

Surprise surprise

The proposal of a merger between CS Holding, the group built around the Credit Suisse

bank, and Union Bank of Switzerland, has caught many a bank strategist on the hop. Even Josef Ackermann, chief executive of Credit Suisse, cannot claim to have been very far ahead of the game.

Speaking to a group of Swiss journalists at a pre-Christmas gathering, Ackermann was asked that old chestnut about whether there was still room for three large retail banks in the country - the other two being UBS and Swiss Bank Corporation.

Ackermann said he saw no possibility of a reduction in the trioka. None of the three could afford unilaterally to withdraw, because of astronomical closure costs. The Swiss cartel office would certainly not allow a merger or takeover of one by any of the others, he contended. That left the possibility of a foreign bank buy-in - in which case there would still be three.

Perhaps CS Holding chairman Rainer Gut should have been at the meeting.

Rosty gets porridge

How the mighty are fallen. Dan Rostenkowski, the once powerful chairman of the US House ways and means committee, is about to start 17 months in prison and hand over \$100,000 in fines.

Rostenkowski was charged with making thousands of dollars of payments to "ghost employees",

and of diverting \$724,000 in federal money and campaign funds for personal use.

Admirers of "Rosty" depict him as a victim of rule changes in the political system. He was a product of the Chicago Democratic machine, with its ward bosses and patronage.

Under this system, three decades ago, Rostenkowski expressed indignation when a judge ordered him to stop using party funds to pay his constituents' parking tickets - a practice he argued was "good politics".

"I am very proud of my 36 years in Congress," Rostenkowski said after being sentenced. "When I am released from incarceration, I intend to be actively involved in public life." Don't say you weren't warned.

The rat's off

Fed up with beef? How about rat? If Vietnamese meal-eaters are to be believed, rat can be a wholesome alternative. Rat is now going down a treat in two provinces northeast of Hanoi, in Hai Hung and Ha Bac, where the animals are cleaned and sliced before being laid out on large bamboo plates. Connoisseurs say boiled rat, served dipped in a seasoning of salt, pepper and spices such as red pepper or lemongrass, is good, but they prefer steamed rat, well stuffed with lemon and guava leaves. Enjoy.

100 years ago

Canada and the Empire
The Toronto Board of Trade yesterday evening unanimously adopted the following resolution: "That the advantages to be obtained from a closer union between the various portions of the British Empire are so great as to justify an arrangement as nearly as possible of the nature of a Zollverein within the Empire consistent with local tariff requirements."
The rising in Rhodesia Salisbury reinforcements, foot, mounted and wagons, left for Gwelo, being joined by 200 Native Contingent at Charter, also 200 Sandangans from Beira. Captain Macfarlane found rebels had made two further attacks on Mr. Gifford's position, but were repulsed with heavy losses. Casualties: Lumsden and Hualbert, severely wounded; Trooper Herman, crushed by boomer. Column returned Bulawayo. All wounded making progress. - Reuter.

50 years ago

Forged war bonds
The Stock Exchange and the banks have been warned of the existence of forged 3/4 per cent War Bonds. Detective Inspector P. Bugey of Scotland Yard, and a special branch officer who will act as interpreter, have gone to Paris in connection with these and bank note forgeries.

COMPANIES AND FINANCE: EUROPE

BASF in \$750m Asian venture with Du Pont

By Jenny Luesby

BASF of Germany and Du Pont of the US, two of the world's leading nylon manufacturers, have agreed a \$750m joint venture in Asia to manufacture 6 per cent of the world output of nylon raw materials.

The companies intend to site the plant in China. However, they had postponed a final decision on location following China's imposition of a 40 per cent tax on machinery imports, said Mr Max Dietrich Kley, BASF's finance director.

They would not be willing to build the plant in China if this tax was adhered to, said Mr Kley. But he hoped it would be possible to negotiate more favourable terms - especially since the plant was at the front edge of technology, and China was keen to promote high-technology investments.

Mr Eduard VanWely, general manager of Du Pont's nylon business, said the new plant would be the most competitive in the world. By combining the nylon technologies of both BASF and Du Pont, it would change "the competitive landscape for nylon for the next quarter century", he said.

Construction will begin in 1998, for completion by 2001. The plant will manufacture 300,000 tonnes a year of adiponitrile. Both BASF and Du Pont use adiponitrile as a raw material, although they specialise in different nylons.

BASF claims to be a market leader in nylon 6, and Du Pont in nylon 66, but neither company is willing to reveal its market share.

Both nylons are used to make fabrics, carpets and plastics, but they melt at different temperatures, affecting their usefulness for dyeing or high specification plastics. On a world-wide basis, the nylon market is growing slowly, but in Asia demand for adiponitrile is rising by 80,000 tonnes a year, equivalent to 2 per cent of current world output.

This growth has been most marked in China, where the country's textiles and clothing industry has been switching to synthetic fibres following the



Max Dietrich Kley, plant at the front edge of technology

failure of successive cotton crops, as a result of bollworm infestation.

Last year, synthetic fibre output in China rose by 21.6 per cent, while imports increased by 86 per cent.

Cotton production is now recovering, but BASF did not expect this to curb growth in the Chinese nylon market, Mr Kley said. With land at a premium, "the scope for cotton is limited by people's need to use their land for agriculture and food".

Chemical companies have accounted for a large share of the inward investment into China, with Du Pont among the west's vanguard investors. BASF has been something of a latecomer, but has recently more than doubled its Chinese investment programme.

Ten days ago, the German chemicals company unveiled a DM3.5bn (\$2.35bn) investment in a petrochemicals complex in Nanjing. It is also building a vitamin E plant, and promising a DM1bn investment in the raw materials for polyurethane. Overall, the company is set to invest nearly DM8bn in new capacity in Asia over the next five years.

RWE plans mobile radio merger

By Alan Cane

Geotek Communications, a fast-developing New Jersey-based telecoms company, and RWE Telliance, part of the German RWE industrial group, plan to merge their public access radio interests in Germany. A deal would create the country's second-largest network.

Public access mobile radio networks are used by businesses such as taxi and delivery services which need radio communications between

vehicles and despatch points. The combined network, owned equally by the two partners, will service about 30,000 business subscribers and will cover most of Germany.

RWE Telliance is a wholly-owned unit of RWE, one of Germany's largest industrial groups which is based in Essen, North Rhine-Westphalia.

The networks to be merged under the agreement are Regionet, owned by Geotek, and Terrafon Bundelfunk, owned by RWE Telliance. The inten-

tion is to create a digital network offering an integrated service including telephony and despatch, messaging and mobile data applications.

Geotek has overseas interests in Germany and in the UK, as well as Spain, Portugal and eastern Europe.

Mr Yaron Eitan, Geotek president and chief executive, noted in the company's annual report that: "It is our intention, when possible, to capitalise on our digital private radio technology in penetrating and upgrading new markets."

Integrated radio services for vehicle fleets and similar customers are seen as a fast-growing niche market with substantial potential.

Geotek claims to have developed a technology which enables it to cover large areas comparatively inexpensively using fewer radio cells than other operators.

A definitive agreement is expected by the summer and the merged company expects to begin offering digital services in the second half of 1997.

Bötsch tries to keep lines uncrossed

Liberalising Germany's telecoms market is proving problematic

Mr Wolfgang Bötsch, Germany's minister for post and telecommunications, is too much the ebullient Bavarian to feel paranoia. That does not mean, however, that people are not getting at him.

He is swiftly coming to terms with the complexities of reconciling the powerful, conflicting interests that stand in the way of freeing-up the German telecoms market. Europe's largest, by January 1998, in line with European Union rules.

The liberalisation process, however, is fraught with problems. One such difficulty involves a series of broad-ranging price cuts agreed in February 1994 with Mr Helmut Fricke, then chief executive of Deutsche Telekom. The last of these, demands that the operator cut its prices by 8 per cent minus the rate of inflation on January 1 1998.

Last week, however, Mr Ron Sommer, Mr Fricke's successor, made clear he felt the cuts were still open for negotiation. The German monopoly operator, which is due for partial privatisation in November this year in one of the world's largest flotations, has the backing of Mr Theo Waigel, the finance minister, who is keen to ensure the flotation is successful.

Then Mr Bötsch has by July to push through the Bundestag, or lower house of parliament, a complex law regulating the newly liberalised market. To do so, he must outflank the opposition Social Demo-

crats. They have unexpectedly come up with plans to create a far bigger regulatory authority than was agreed in negotiations with the government last November.

To add to his woes, Germany's 16 Länder, or states, which sit in the upper house, or Bundesrat, are beginning to demand more influence over the future regulatory authority.

On top of all this, Mr Bötsch faces the prospect of a legal challenge in the constitutional court from hundreds of Germany's municipalities demanding that Deutsche Telekom and its rivals pay to transport their services across cables, which in Germany are owned by the councils.

In a recent Bundestag vote, a majority of states backed the demands of the municipalities to be able to charge for the carriage of telecoms services. Mr Bötsch is unimpressed: "One Land with six votes would have tipped it against the charges," he says scornfully. "If North Rhine-Westphalia or Saxony had voted the way Bavaria had voted, then the motion would have been thrown out."

There are, however, more substantial opponents. A group of Germany's largest companies including RWE, Thyssen, Viag and Mannesmann, all with fledgling telecoms interests, are in conflict with the minister after he allowed Deutsche Telekom to offer corporate clients an extensive programme of discounts on their telecoms services.



Wolfgang Bötsch: minister unmoved by rising tide of difficulties

The companies, grouped in an association called VTM, are complaining to the European Commission that if Deutsche Telekom is permitted to award discounts of up to 39 per cent, their own telecoms efforts will be in jeopardy.

This row has given glimpses of the unusually bad atmosphere developing between the ministry, Deutsche Telekom and the would-be private operators. Such a confrontational mood is unlikely to help preparations for Deutsche Telekom's listing in November.

"I expected it to be cleaner than this," says Mr Peter Mihatsch, head of Mannesmann's telecoms activities. "It has reached a point where it is unacceptable. It's gone too far."

Mr Bötsch seems unmoved by the rising tide of difficulties. He says that, given Germany's federal traditions, he accepts that the Länder should have a say on regulation. He refuses, however, to contemplate an unwieldy regulatory body with 16 different voices demanding to be heard.

"In principle it is right that the Länder want to have a participation in the regulatory questions, but we have to negotiate how this can work," he said.

Meanwhile, Mr Bötsch's civil servants insist that Mr Sommer at Deutsche Telekom is mistaken in believing he can renegotiate the tariffs agreed with his predecessor in 1994.

If necessary, the ministry has indicated, the tariff changes will be introduced not on January 1 1998, as originally planned, but on December 31 1997 - one day before the

market is fully liberalised.

As for the VTM, Mr Bötsch points out that it and other lobby groups do not have a formal right to be consulted on questions such as the controversial Deutsche Telekom discounts. In practice, however, he insists that the private operators have been given opportunities to air their views and their concerns have been taken into account.

The ministry, meanwhile, is doing everything it can to ensure the new telecoms law is passed by July so that both Deutsche Telekom and its competitors have a proper idea of what competition will look like after 1998.

Verordnungen, or directives, are now being drawn up based on criteria set by the European Commission, which will define how interconnection charges - the prices operators charge each other for reciprocal use of their networks - are set.

By July, the ministry should have published model licences giving details of reliability, technical know-how, and other criteria which every operator that wants to compete in Germany's liberalised telecoms market will have to meet.

It is a tough programme, but Mr Bötsch seems confident that the schedule will be met and the results will be beneficial for the national operator: "If Deutsche Telekom can resist competition within Germany, then it can make competition outside Germany," he argues.

Michael Lindemann and Alan Cane

Svedala launches bid for Tampella

By Greg Molvor in Stockholm

Svedala Industri, the Swedish mining and construction equipment manufacturer, yesterday launched a SKr1.83bn (\$700m) takeover bid for Tampella Corporation, a Finnish engineering group in which Norway's Kvaerner, the shipping and engineering group, is the biggest shareholder.

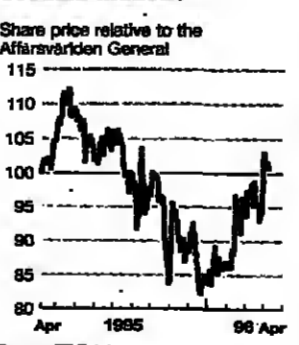
Svedala said it was offering one new Svedala share for every 16 Tampella shares equivalent to a 38 per cent premium on Tampella's pre-bid share price.

Kvaerner signalled it was interested in the Svedala offer, which follows the Norwegian company's \$904m (\$1.4bn) acquisition of Trafalgar House, the UK construction and engineering conglomerate. It said yesterday it was doubtful whether Tampella's existing operations would form part of its core businesses after the Trafalgar House purchase.

Kvaerner bought its 26 per cent stake in Tampella in February as part of its \$26.6m purchase of the Finnish group's loss-making chemical recovery system supplier, Tampella Power. It paid \$56.9m for the stake in the parent company and stands to make a capital gain of about \$12m from the Svedala offer.

Mr Thomas Older, Svedala chief executive, said: "Every-one can see the logic in this transaction. It is an excellent industrial fit." The merger would give Svedala, which earned pre-tax profits last year

Svedala Industri



Source: FT Data

of SKr736m on sales of SKr11bn, a presence in 40 countries with 14,000 employees, and provide growth opportunities in Asia, Africa and South America, he added.

However, some Svedala investors were unenthusiastic and its shares dropped SKr10 to SKr210. Tampella's stock jumped 26 per cent, closing at FM8.70 from FM6.90.

Tampella made no comment on the bid. It comprises three divisions: Tampack, a mining equipment manufacturer; Detec International, a hydraulics supplier, and Roxon, a bulk materials-handling company. Excluding Tampella Power, the group last year recorded pre-tax profits of FM3.37bn. Svedala, which is being advised by Merrill Lynch International, said it would publish a prospectus on May 20 and set the deadline for acceptance as June 10.

NEWS DIGEST

Sulzer sees profits rebound this year

Sulzer, the Swiss engineering and medical technology group, said yesterday it expected 1996 net profit to rebound from last year's SFr22m to around 1994 levels of SFr195m (\$182m). The year's SFr22m to around 1994 levels "promises a substantial rise in income" in 1996. Orders rose by 3 per cent last year to SFr5.7bn, in spite of the strong Swiss franc, and were 4 per cent up to SFr1.6bn between the first quarters of 1995 and 1996.

The group recorded sales of SFr5.7bn in 1995, a rise of 2 per cent on the previous year, but operating income sank to SFr173m, from SFr205m in 1994.

Sulzer blamed an "accumulation of extraordinary circumstances" for the poor 1995 results. These included provisions of more than SFr50m for higher restructuring costs, a patent infringement suit in the US, and individual bad debt risks.

Profits were further dampened by currency translation effects, put at more than SFr70m, a depressed construction market and "an unexpected decline" in the weaving machinery market. The company said its Sulzer Roteq (pumps and compressors) and Sulzer Winterthur (engineering) units performed well last year and expected good results for 1996.

Sulzermedica also expects better results after being hit last year by restructuring costs, negative currency effects, and provision for an adverse US ruling on a hip-joint patent which the company is appealing.

Sulzer Rütli, the world leader in weaving machinery, and Sulzer Intra, the group's building technology arm, expect reduced losses this year following restructuring and cost-cutting measures.

Francis Williams, Geneva

VA Stahl expects slip

VA Stahl, the Austrian steel company, yesterday predicted slightly lower earnings and sales for this year after a record performance in 1995. The company, which was privatised last year, reported a five-fold increase in group net income from Sch645m to Sch3.01bn (\$287m) because of strong demand for quality steel products.

Sales climbed 18 per cent from Sch29.88bn to Sch33.80bn, and pre-tax operating profit more than doubled from Sch1.19bn to Sch3.04bn. All divisions posted higher revenue, and overall raw steel output advanced 5 per cent from 3.97m tonnes to 4.55m tonnes. The company kept its workforce roughly steady and increased revenue-per-employee by 14 per cent.

VA Stahl attributed its performance to strong demand for its high-quality steel products. A slowdown in economic growth in western Europe would depress earnings this year, but long-term contracts, good business with long steel products and further growth in eastern and central Europe should have a stabilising effect on the performance, the company said. VA Stahl is the core of Austria's former nationalised industries, which suffered heavy losses in the 1980s and early 1990s. OIAG, the state holding company, still holds 99 per cent of the shares.

Eric Frey, Vienna

Sydkraft stake for Norwegians

The Swedish city of Malmö has sold shares representing 7 per cent of the votes and 4.4 per cent of the capital in Sydkraft, the power producer, to Statkraft of Norway. This is the latest in a series of cross-border rationalisation moves within the Nordic power industry, triggered by deregulation in the region's energy markets.

Malmö said that the Swedish municipalities of Oskarshamn and Landskrona had sold further shares totalling 1.1 per cent of the votes and 0.6 per cent of the capital in Sydkraft to the Norwegian concern. The shares have been sold at a price of SKr140.50 each, bringing the total value of the transactions to SKr1.35bn (\$201m).

After the sale, the Norwegian state-owned Statkraft will hold 6.1 per cent of the votes and 5.1 per cent of the capital in Sydkraft. Mr Lars Thulin, Statkraft president, said his company intended "to participate in the development of the electricity industry in the expanding Nordic market and regards the investment in Sydkraft as a long-term industrial holding".

Reuter, Stockholm

Thyssen unit buys Saurer arm

Saurer, the Swiss textile machinery and components maker, has sold SMB North America, a wholly-owned subsidiary in Selma, North Carolina, to Thyssen Uniformtechnik, a unit of Germany's Thyssen Industrie. SMB has an impression die forging plant built in 1992 which produces mainly steel piston crowns and wheel hubs for the motor industry. In 1995 it employed 120 workers and had revenues of about \$12m.

Saurer said it was divesting SMB as part of its efforts to concentrate on its core businesses, encompassing textile machinery, transmission systems and surface metallurgy.

Reuter, Arbon, Switzerland

Crossair predicts advance

Crossair, the regional airline subsidiary of Swissair, expects a significant rise in 1996 profit due to higher sales volume and better efficiency. "We expect a significant rise in profits in 1996 due to larger business volume and improved efficiency," Crossair said in its 1995 annual report.

The carrier said it expected to complete 128,000 flights with 4.15m passengers in 1996, an increase of 84 per cent from last year. It is currently undergoing its largest expansion programme and by August this year 16 new aircraft will be added to its fleet.

But Crossair added that it was giving priority to retaining a competitive cost structure because competition between airlines was expected to remain intense and flight revenue would remain under pressure from the strong Swiss franc.

Reuter, Basel

Shake-up at EVC

EVC, Europe's largest PVC producer, is overhauling its organisation to help it to achieve its earnings growth targets. "The purpose of the new structure is to extend EVC's leading position in the European PVC industry, reduce overheads by 25 per cent and (to) enable the board to focus on development opportunities," EVC said.

The company, floated on the Amsterdam bourse in 1994, posted 1995 net profits of Fl 168.9m (\$98.37m), almost double its 1994 pro forma net of Fl 86.3m. EVC's strategy would, it said, continue to focus on concentrating its manufacturing assets at a minimum number of internationally competitive sites. No financial details were given.

Reuter, Amsterdam

Gebrüder Maerz, the ailing German food group, said yesterday it would file for bankruptcy after its banks decided not to support a debt rescheduling. Maerz, a holding company for food and beverage companies, said its subsidiaries were not affected by the decision and the bankruptcy filing would affect only nine of its 2,100 employees.

Reuter, Rosenheim

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Dear Shareholders,
We have the pleasure of inviting you to attend the Annual General Meeting of shareholders, which will be held on April 25, 1996 at 02.00 p.m. at the registered office of Suez Street Bank Luxembourg S.A., 47, Boulevard Royal, L-2449 Luxembourg, with the following agenda:

1. Presentation of the reports of the Board of Directors and of the Auditor.
2. Approval of the balance sheet, profit and loss account as of December 31, 1995 and the allocation of the net profits.
3. Discharge to be granted to the Directors and to the Auditor for the fiscal year ended December 31, 1995.
4. Action on nomination for the election of Directors and an Auditor for the ensuing year.
5. Any other business which may be properly brought before the meeting.

The shareholders are advised that no quantity of shares is required, and that the decisions will be taken at the majority vote of the shares present or represented at the Meeting. Each share is entitled to one vote. A shareholder may act in any Meeting by proxy.

By order of the Board of Directors

31% Increase in Net Income

RIYAD BANK SAUDI JOINT STOCK COMPANY FINANCIAL HIGHLIGHTS (AUDITED)

BALANCE SHEET

ASSETS

	(S.R. '000) 31/12/95	(S.R. '000) 31/12/94
Cash and balances with Saudi Arabian Monetary Agency	1,373,057	1,544,016
Due from banks	18,497,756	16,197,837
Trading securities	323,084	2,192,250
Loans and advances, net	17,093,634	19,099,220
Investment securities, net	14,135,797	11,984,760
Fixed assets, net	936,105	859,234
Other real estate	424,305	409,002
Other assets	1,401,982	1,609,008
Total Assets	54,185,720	53,895,317

LIABILITIES & SHAREHOLDERS' EQUITY

LIABILITIES

	30,589,667	28,613,671
Customer deposits	14,201,816	16,195,615
Due to banks	2,260,634	2,093,019
Other liabilities	47,052,117	46,902,305
Total Liabilities		

SHAREHOLDERS' EQUITY

	4,000,000	4,000,000
Share capital	2,537,000	2,346,000
Statutory reserve	400,000	400,000
Other reserves	196,603	247,012
Retained earnings	7,133,603	6,992,012
Total Shareholders' Equity	54,185,720	53,895,317
Total Liabilities and Shareholders' Equity		

CONTRA ACCOUNTS

	92,716,809	98,149,306
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STATEMENT OF INCOME (ABBREVIATED)

	3,526,151	2,616,231
Operating income	(2,814,398)	(2,165,211)
Less: operating expenses	711,753	451,020
Net Income from Operations	51,838	130,775
Other income (expense)	763,591	581,795
Total Net Income for the year ended December 31, 1995		

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RIYAD BANK



بنك الرياض

صكنا من الامم

Uncertain future for Phoenix Bicycle

By Tony Walker in Beijing

Phoenix Bicycle, a Chinese icon, posted a 70 per cent drop in profit last year, raising doubts about its future.

The question for Phoenix, it seems, is not whether it will rise, but whether China's largest bicycle manufacturer risks falling further.

Shanghai brokers blame a poor product mix, cut-throat competition in the local bicycle market, rising raw materials costs and a lingering credit squeeze for Phoenix's plunge in after-tax profits to ¥36.3m (\$4.35m). Turnover was also down.

Phoenix produced 5.4m bicycles in 1995, or almost 17 per cent of China's total production.

A glut in the domestic market and resistance to Chinese exports in international markets contributed to Phoenix's poor result. China's 300-odd bicycle makers produce 50m units annually for a home market capable of absorbing 30m. Bicycles in China, the main means of transport, number about 400m, which is one bicycle for every three people. But rising car ownership, growing affluence and improved urban transport seem likely to shrink the market - especially for Phoenix's mass-produced brands.

Reuters news agency quoted Phoenix as saying the company planned to increase exports this year to 35 per cent of output, from 25 per cent in 1995, cut production and sell off its 1995 inventory.

Phoenix was also negotiating a joint venture with a European motorcycle manufacturer to improve the quality of its scooters and mopeds. It sold 4,000 last year and hopes to increase sales to 20,000 this year.

But the company faces an uphill struggle in its efforts to restore its fortunes. It earned \$54.7m from exports in 1995 of 1.3m bicycles, but anti-dumping measures in the saturated US and European markets are proving a constraint.

Phoenix, whose shares are listed on the Shanghai stock exchange, is not the only publicly listed bicycle manufacturer facing difficulties. Forever Bicycle, China's other main brand, is also likely to report a profit slump.

China exports 13m-14m bicycles a year and, with spare parts, earns about \$700m.

Bank of Tokyo-Mitsubishi aids trust unit

By Gerard Baker in Tokyo

Bank of Tokyo-Mitsubishi, the world's largest bank, is to provide further financial relief of up to ¥44bn (\$407m) to its troubled trust banking subsidiary, Nippon Trust Bank. The funds are needed to cover write-offs of bad loans at Nippon Trust in the financial year just ended.

The move, announced yesterday, marks another significant step towards the clearance of problem loans from the consolidated balance sheet of Tokyo-Mitsubishi, already one of the

healthiest among Japan's generally weak banks.

A significant part of Nippon Trust was acquired by Mitsubishi Bank in October 1994 in what was largely a rescue operation. Nippon Trust, the weakest of the country's seven trust banks, had more than ¥200bn in non-performing loans, or about 10 per cent of its total loan book, accumulated during the collapse of property prices over the last five years. Mitsubishi paid a similar sum for a controlling 68 per cent stake in the company. Since then it has

been overseeing the steady write-down of bad debts.

In the year to the end of March 1995, Nippon Trust reported a net loss of ¥164bn as a result of such write-offs, and it will report another substantial loss for the year to the end of last month.

The latest Nippon Trust losses stem from specific write-offs of bad loans to the country's collapsed housing loan companies. These lenders were founded by the main commercial banks in the 1970s, but are bankrupt, with up to two-

thirds of their total lending of more than ¥13,000bn thought to be unrecoverable. Under a government plan for the companies' liquidation, the creditor banks have been asked to abandon all their remaining claims on the companies.

The write-offs at Nippon Trust will mean that most of the bank's non-performing loans are now provided for, or written off completely.

Bank of Tokyo-Mitsubishi was formed on April 1 by the merger of Mitsubishi and Bank of Tokyo, another leading com-

mercial bank. The reconstruction of Nippon Trust means the new bank, which offers a virtually unrivalled range of financial services in domestic and international markets, is now one of only a handful of Japanese banks to be largely clear of their immediate non-performing loan problems.

However, like most other leading lenders, it could still be dogged by fresh problem loans at other affiliated financial institutions, the scale of whose problems is only now beginning to emerge.

NEC ends desktop production in US

By Michio Nakamoto in Tokyo

NEC, Japan's largest personal computer manufacturer, is to stop making desktop PCs in the US, in a move that highlights the difficulties Japanese companies face in that market.

The company said the cost-cutting move would involve phasing out production of desktop PCs at its facility in Massachusetts over the next three to six months. The factory will be closed.

NEC will, however, continue to design and develop its PCs for the US market but will outsource the desktops. Production of notebook PCs, where Japanese companies are more competitive, would continue in the US, NEC said.

The Japanese company has yet to decide where to outsource its desktops, although it is going ahead this year with trial sourcing of between about 250,000 and 300,000 desktops from Packard Bell, the largest US supplier of home computers, in which NEC has a 19.9 per cent stake. In February, NEC made a further \$283m cash injection into Packard Bell in exchange for non-voting preferred shares.

Japanese PC makers, which have concentrated on proprietary PC standards for the domestic market, have had difficulty building up market share in the US.

While companies such as Toshiba have successfully marketed notebook PCs, Japanese groups have not been competitive in the desktop market.

NEC, which entered the US market in 1987 and has manufactured locally all its PCs sold there, sold 550,000 units last year, of which 380,000 were desktops. That gave NEC a 2.4 per cent market share, according to the company.

Most of NEC's profits in the US had come from notebook PCs, said Mr Takashi Kuwabara, general manager of the international personal computer product marketing division.

NEC has had particular difficulty tapping the corporate market. By outsourcing its desktop PC production, the company hopes to cut costs, improve profitability and further expand its US PC business.

"The past 10 years were a period for catching up but the next 10 years will be the time for NEC to enter the top league," Mr Kuwabara said.

Indonesian carmaker ahead 39% but warns of downturn

By Manuella Saragosa in Jakarta and AFP-Asia

Astra International, Indonesia's largest carmaker, said its unaudited net profit last year rose 39 per cent but warned that earnings would fall this year. The forecast follows the government's decision to award tax and tariff concessions to manufacture a "national" car to a venture involving President Suharto's youngest son.

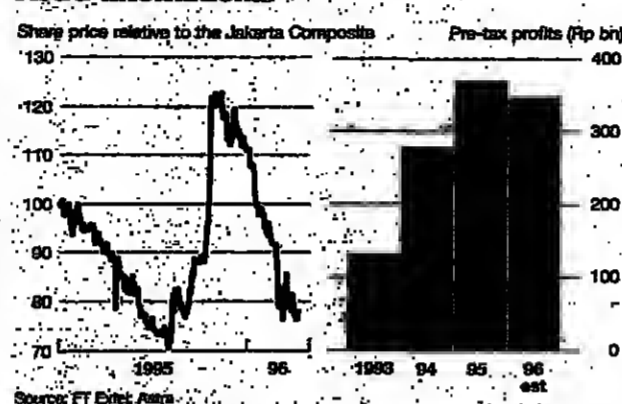
Speaking at an analysts' meeting in Jakarta, Astra's finance director, Ms Rini Soewandi, predicted net profit this year would fall from Rp370bn last year to Rp350bn (\$150m) - still ahead of 1994's Rp279bn. Net profit was expected to decline as gross margins on cars were squeezed and Astra's market share for cars fell from 55 per cent in 1995 to 50 per cent this year, she added.

Astra, which assembles and distributes Toyota, Daihatsu, Isuzu and Nissan cars in Indonesia, said 1995 sales rose 46 per cent, from Rp8,900bn in 1994 to Rp13,000bn. However, this year sales are expected to rise only slightly, to Rp13,600bn.

Ms Soewandi said gross margins on cars were expected to fall about 20 per cent. "We don't expect to lower prices, but we will give more incentives to our dealers," she said. "But sales will drop, so margins will be affected and profitability of [the car] division will decline."

Astra, which also has interests in heavy equipment, electronics, financial services and agribusiness, said its automotive division contributed 42 per cent to net profit last year. Financial services contributed

Astra International



10 per cent while heavy industry and agribusiness accounted for 6 per cent each. The company's telecommunications division booked a loss.

Total capital expenditure this year will fall from Rp2,600bn in 1995 to Rp1,400bn, with the car division taking a 46 per cent share of the total compared with last year's 51 per cent.

Astra said its car sales last month rose to 15,898 units from 9,454 in February, when a drop was recorded because of severe flooding in the capital Jakarta in the previous month.

Meanwhile, total March car sales in Indonesia were 27,916 units, up from 18,439 in February.

Astra International's share price was hit at the end of February when President Suharto passed a decree exempting his youngest son, Mr Hutomo Mandala Putra, from Indonesia's complicated tariff regime on car components and sales tax to develop what is being touted as a "national" car.

The car, which has been christened the "Timor", is a

News Corp ready to buy Ansett NZ

By Terry Hall in Wellington and agencies

News Corporation, which has a 50 per cent stake in Ansett Airlines, is prepared to buy the Australian carrier's New Zealand subsidiary in an attempt to overcome regulatory objections stalling Air New Zealand's plan to buy TNT's half-share in Ansett Australia.

New Zealand's Commerce Commission last week refused to sanction Air NZ's purchase of the TNT stake, saying it was not satisfied that the Air NZ-Ansett axis, which would result from the deal, would not acquire a dominant position in the country's aviation industry.

Both Air NZ and News Corp immediately vowed to complete the deal, and yesterday Mr Ken Cowley, executive chairman of Ansett and News Corp's Australian chief, made a whistle-stop visit to Ansett New Zealand bases in Auckland, Wellington and Christchurch.

One staff member told the New Zealand Press Association that Mr Cowley said News Corp wanted a quick resolution after the New Zealand Commerce Commission blocked the deal. News Corp was not prepared to let the issue drag on, as that was destabilising the airline and staff.

News Corp, Mr Cowley said, was determined to overcome regulatory issues that had been holding up the deal, and was prepared to buy Ansett NZ outright if necessary. He reaffirmed News Corp's long-term commitment to Ansett NZ and said closure or sale to some other party was not an option.

Mr Cowley declined to comment on discussions he had yesterday with Mr Jim Bolger, New Zealand prime minister. Air NZ said yesterday it was still examining its options after the Commerce Commission's ruling.

Eridania Béghin-Say

Stable operating results despite adverse foreign exchange impact
Net income rises by 26.3%

The Board of Directors of Eridania Béghin-Say met on April 3rd 1996 under the Chairmanship of Mr. Stefano Meloni. Consolidated accounts for the full year ended 31st December 1995 were reviewed and approved.

The essential consolidated figures are the following:

(in millions of FRF)	1993	1994	1995	Δ 95/94%
Net Sales	50,907	50,786	50,806	
Operating income	4,040	3,972	4,001	+ 0.7
Pre tax income from continuing operations	2,800	2,896	2,973	+ 2.7
Net income - Group share	1,344	1,208	1,526	+26.3
Total shareholders' equity	16,582	18,940	19,024	
Net financial indebtedness	12,509	10,745	13,010	

The scope of consolidation changed following the sale of the seasonings business, of the stakes in Védial at year end 1994, as a result of the acquisition of four companies in the Animal Nutrition division and following the acquisition of American Maize in November 1995.

Net sales and operating income were broadly unchanged compared to 1994 despite a significant unfavourable foreign exchange impact. On the basis of unchanged exchange rates and of a comparable scope of consolidation, the net effect of the latter being minimal, net sales growth would have been 6.4% while operating income would have increased by 7.2%.

This increase in operating income was the consequence of a significantly improved performance of the Animal Nutrition and of the Crushing and Refining divisions, offset by short term difficulties in the Consumer Products division and by the deterioration of margins in the Starch Products division owing to delays in passing on raw material price increases in the second half of the year. The Sugar and Derivatives division enjoyed generally good conditions, albeit partly eroded by the adverse impact of Italian and the Hungarian currency movements.

Pre-tax income from continuing operations improved 2.7% reaching 2,973 million francs thanks to a further decline in net financial expense resulting from lower average financial indebtedness prior to the acquisition of American Maize in November 1995.

The Group's share of net income grew 26.3% to 1,526 million francs, mainly as a consequence of the group's overall tax rate falling from 41% in 1994 to 27% in 1995, despite the higher French corporate income tax rate. This improvement, mostly non-recurring, arose from measures to optimise taxation which enabled the group to take tax credits against current and future income for prior years' tax losses.

The ratio of net financial debt to equity at year end 1995 was 0.68 versus 0.57 one year earlier after taking into account the financing of the purchase of American Maize.

The Board also reviewed the accounts of the parent Company, Eridania Béghin-Say, showing net income of 1,012.5 million.

The Board will propose to the Annual General Meeting of Shareholders that a dividend amounting to 857.5 million francs be declared, versus 779.5 million last year. The dividend per share and per investment certificate would therefore be 33 francs, before tax credit, up 10% on the previous year.

The appointment of Messrs Patrick Ricard and Piero Antinori as Directors will be submitted to the approval of the Meeting.

Speaking at the conclusion of the Board meeting, Mr. Enrico Bondi, Managing Director of Montedison, stressed the strategic nature of Montedison's majority stake in Eridania Béghin-Say and explicitly denied that there were any plans to sell or reduce this stake; all comments about any such plans are without the slightest basis in fact.

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COMPANIES AND FINANCE: THE AMERICAS

Serfin seeks capital injection for bank

By Leslie Crawford
in Mexico City

Grupo Serfin, Mexico's third-largest financial group, is understood to be looking for a foreign partner to help recapitalize its troubled bank.

Serfin is hoping to raise \$500m by the middle of the year to strengthen the bank's capital and reserves, and to take advantage of a relief scheme that allows banks to sell their loans to the government if shareholders inject the fresh capital into the bank. The ratio set by bank regulators is two pesos of bad loans

for every peso of extra capital. Last year, as bad debts mounted with Mexico's deepening recession, Serfin off-loaded 4.34bn pesos (\$75m) of non-performing loans on to the government, and coaxed 2.17bn pesos from reluctant shareholders.

Serfin executives say the bank needs to shed another 80n pesos of bad loans to clean up its balance sheet. The bank posted heavy losses in the second half of 1995 and managed only a 22m peso profit for the whole of the year. It also has the lowest capitalisation ratio of Mexico's leading banks.

"Serfin's interest margins are too small to generate significant [bad debt] provisions," says Mr Felix Boni at James Capel, the US investment bank. Unlike Banamex and Banzcomer, its two larger rivals, Serfin lacks a large depositor base with which to finance its operations. Its dependence on money market funds made it particularly vulnerable to the wild fluctuations in interest rates last year.

Mr David Royo, Serfin deputy director of financial planning, says the bank is seeking to raise between \$100m and \$150m from its controlling

shareholders, which include Grupo Vitro, the glass manufacturer, and the wealthy Sada family of Monterrey.

Another \$300m of fresh capital is expected to come from asset sales, including Seguros Serfin, the group's insurance company.

That still leaves Serfin \$150m short of its \$500m capital target. Mr Royo says: "If we are able to cut costs and increase our depositor base, then perhaps the bank will be in a stronger position to raise capital in the international markets later this year."

Mr Royo says Serfin is "open

to the option of bringing a foreign partner into the group", although there were no negotiations with foreign banks.

Bank analysts, however, believe the financial constraints of Serfin's existing shareholders will eventually force the bank to seek a foreign partner - a strategy increasingly pursued by Mexico's troubled banks. Bancomer, the country's second-largest bank, recently clinched an alliance with Canada's Bank of Montreal. Weaker banks, such as Inverlat and Probrusa, have been taken over wholesale by foreigners.

Netscape and GE unit in Internet venture

By Louise Kehoe
in San Francisco

Netscape Communications, the leading Internet software group, and General Electric's Information Services division have formed a joint venture company to develop and market software to make it easier for companies to do business over the Internet.

The partners will each hold a 50 per cent interest in the venture, called Actra Business Systems. It will focus on developing Internet software for electronic commerce by combining Netscape's popular browser interface and server technology with GEIS's technology for Electronic Document Interchange (EDI) - the use of computer networks to place purchase orders and sell goods and services.

GEIS is a leader in EDI services, with about 40,000 customers. Its services are based on proprietary technology and private networks. The group also recently unveiled Internet services using a proprietary encryption technique to ensure security.

The joint venture plans to develop a business document gateway, to enable the exchange of electronic data between businesses and their trading partners, as well as server software to streamline sourcing, ordering, purchasing and payments.

Actra will target small and medium-sized businesses that do not make use of proprietary EDI services. Some 100,000 companies worldwide currently use EDI services. This number represents only about 5 per cent of businesses that could benefit from the technology, according to Forrester Research, a US market research group.

"By working with GE on this joint venture we hope to extend the Internet's benefits to business-to-business commerce," said Mr Jim Barksdale, president and chief executive of Netscape.

The venture's products will be distributed by its parent companies, as well as through electronic commerce service providers.

NEWS DIGEST

AMD slides into red at operating level

Advanced Micro Devices reported a 70 per cent drop in first-quarter earnings as the Silicon Valley chipmaker failed to keep pace with rapid advances in microprocessor technology. AMD had warned of lower profits, but the results were well below Wall Street expectations. First-quarter sales were \$544m, down from \$627m in the same period last year.

The company reported an operating loss of \$22m, against an operating profit of \$122m in the first quarter of 1995. Net income for the quarter was \$25m, or 18 cents a share, including an \$8.7m charge related to the recently completed acquisition of NexGen, a microprocessor design company, and a pre-tax gain of \$24.7m from the sale of securities. In the same period last year AMD recorded net income of \$84m, or 63 cents.

AMD "continued to feel the effects of the lack of a fifth-generation microprocessor product" to compete with Pentium chips from Intel, the world leader in microprocessor chips used in personal computers, said Mr W. J. Sanders III, AMD chairman and chief executive. AMD began shipments of Pentium-class chips at the end of the first quarter. It plans to produce more than 3m during the rest of the year, and more than 5m over the next 12 months, Mr Sanders said.

Even as AMD begins to catch up with Intel, however, the market for chips used in personal computers is slowing. "The current industry-wide downturn... makes projections about future prospects problematic," Mr Sanders said.

Louise Kehoe, San Francisco

Toronto Dominion buys broker

Toronto Dominion Bank, Canada's fifth largest, plans to form one of North America's largest discount brokerages by taking over the US broker Waterhouse Investment Services for US\$525m in cash and stock. The bank's Green Line Investor Services is the leading discount broker in Canada. The two operations will be merged but each will retain its name.

Mr Lawrence Waterhouse, founder of Waterhouse, will remain chairman of the US operation, which has 1,300 associates serving more than 500,000 accounts through 79 branch offices in 37 states. Toronto Dominion, which has US\$78bn in assets, led the way in discount brokerage in Canada more than a decade ago and now claims a 70 per cent market share.

"By joining with a big US firm, our Canadian customers will tap a broader range of products," said Mr Keith Gray, Green Line executive vice-president.

TD will pay US\$35 in common shares or cash for each Waterhouse share, while ensuring that 65 per cent of the total price is paid in stock. The deal requires regulatory approval in Canada and the US and is due for completion by August 31. TD plans to list its shares on the New York Stock Exchange.

Robert Gibbons, Montreal

KPMG's US chief goes global

Mr Jon Madonna, US chairman and chief executive of KPMG, the accounting and consulting firm, is to step down in October to concentrate on his role as chairman and chief executive of the KPMG global organisation. Mr Madonna was elected to the global chairmanship in October 1995, having been chairman of the US firm since 1990. He said that leading the firm at a global level was now a full-time job. There will be an election for the US chairmanship.

In the US, Mr Madonna is credited with re-focusing the firm on consulting and advisory work rather than purely traditional accounting services. As a result, KPMG reported a 10 per cent increase in revenues following the reorganisation in 1993. Mr Madonna said he hoped to bring the same success to the global firm.

KPMG, like most of the other Big Six accountancy firms, is made up of many national firms linked by an umbrella organisation. In recent years these organisations have become increasingly important as clients seek cross-border services.

Jim Kelly, Accountancy Correspondent

Six bids for Mexico gas permit

Bidding for Mexico's first permit to distribute natural gas has attracted six groups. Distribution and transportation of natural gas was opened to companies other than state oil monopoly Petróleos Mexicanos (Pemex) last year. Subsidiaries of US company Tenneco and Spanish oil group Repsol are among those bidding for the distribution permit for Mexicali, a mid-sized town near the US border. San Diego Gas and Electric, PNM Energy of New Mexico, and Gaz de France all registered with Mexican partners, while Multigas, a Mexican company, registered individually.

"This process is testing all the regulations and changes of the last year," said Dr Héctor Olea, president of the Energy Regulatory Commission, the body which has overseen the liberalisation of the sector. He said the Mexicali licence was chosen to open the sector because it is small and very manageable. Bidding for the Mexicali project will close on June 3, with the permit awarded on August 12. Dr Olea said he expected three or four other gas licences to be awarded this year.

Daniel Dombey, Mexico City

Falconbridge bows out

Falconbridge, the Canadian mining group, has bowed out of the bidding for the Voisey's Bay nickel property in Labrador, but is entitled to a C\$100m (US\$73.7m) break-up fee. Falconbridge said it was not ready to top Inco's C\$4.3bn bid, and it had not signed any deal with Inco to buy a minority stake in the world's largest known nickel-copper-cobalt property. It will invest in the Falcon, less the cost of its bid, elsewhere. Inco is buying the 75 per cent of Voisey's Bay it does not already own by acquiring Diamond Fields Resources. DFR is holding a special shareholders' meeting in Vancouver on May 22 to approve the offer.

Robert Gibbons

Telex-Chile lifts Colomsat stake

Telex-Chile is to buy a further 40 per cent of Colombian telecommunications company Colomsat for \$4m, and plans to list it on the Bogota stock exchange. The deal, which leaves Telex-Chile with 86.66 per cent of Colomsat, also opens the way for the long-distance carrier to take further control.

Telex-Chile subsidiary Texcom will also sign a future purchase agreement for Colomsat stock. Under the agreement, Texcom may buy within the next year a further 7.82 per cent of Colomsat's current shares outstanding at \$2.76m, or about three times their book value on December 31, said Telex-Chile. Colomsat has become Colombia's main private competitor to the long-distance service monopoly, said Telex-Chile, whose own long-distance unit, Chilestat, is one of five main long-distance carriers in Chile.

Reuter, Santiago

Motorola surprises with first-quarter improvement

By Louise Kehoe

Motorola, the US semiconductor and electronics equipment manufacturer, has reported an unexpected modest gain in first-quarter earnings, rebounding from a weak performance at the end of last year.

It posted first-quarter sales of \$7bn, up 16 per cent from \$6bn in the same period a year ago.

Earnings for the period rose about 3 per cent to \$384m, or 63 cents a share, from \$372m, or 61 cents, in the first quarter of 1995.

Wall Street analysts had been predicting an earnings decline of about 57 cents a share, and in early trading yesterday Motorola's shares jumped 33% to \$55.

However, the company said first-quarter earnings would have been flat, were it not for a lower corporate tax rate. It warned that "difficult earnings comparisons" may be ahead.

Mr Gary Tooker, vice-chairman and chief executive, cited mixed economic conditions, price pressures in the cellular telephone market and weakening demand for semiconductor products.

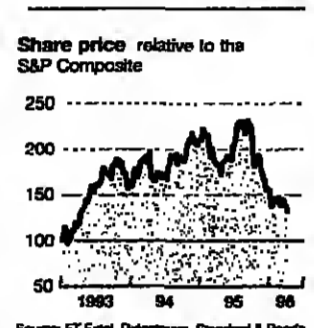
Cost-cutting also contributed to improved earnings. Lower gross margins in the company's main businesses were largely offset by lower expenses, the company said.

First-quarter semiconductor

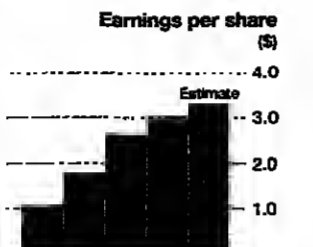
COMPANY PROFILE:

Motorola

Market capitalisation	\$31.06bn
Main listing	New York
Historic P/E	17.83
Gross yield	11.77%
Earnings per share	\$2.93
Current share price	\$55.13



Source: FT Econ, Datastream, Standard & Poor's



sales rose 14 per cent to \$2.1bn, but new orders declined 5 per cent, with orders from the personal computer industry "down significantly", the company said.

Motorola's General Systems Products group, which includes the company's world-leading cellular telephone business, reported a 16 per cent increase in sales to \$2.7bn. Orders also rose.

US cellular telephone sales had declined in the fourth

quarter of 1995, and analysts said the increase in sales and orders was encouraging.

General market conditions were mixed, the company said. "Robust economic growth continues in Asia, especially in China," Mr Tooker said.

"Weakness in Europe is continuing, while the US is growing modestly. Latin America continues to experience near-term volatility but the long-term trend is favourable."

Moody's upbeat on US banks after series of mergers

By Richard Waters
in New York

The recent spate of bank mergers in the US has created a group of banks with the scale and breadth of business to boost their financial strength still further, according to a report by Moody's Investors Service, the US ratings agency.

The result is likely to be even stronger credit ratings for the country's largest banks, including Chase Manhattan, Citicorp and BankAmerica, the agency said.

By contrast, banks like J. P. Morgan and Bankers Trust, whose activities are concentrated in the wholesale markets, face growing competition and price pressure which could weaken their ratings over the longer term, it added.

Moody's confident predictions for the biggest US banks come after a recent series of upgrades, which have seen the institutions recover ratings not seen since before the credit crisis of the early 1990s.

Chase, Citicorp, BankAmerica and Wells Fargo have all been upgraded by the ratings agency in recent months, and each now has a double-A rating at the bank subsidiary level and an A1 rating at the holding company level.

While credit concerns over US banks have largely evaporated in recent years, there has been increased attention to the high levels of credit card and other types of debt taken on by US consumers, as well as a rise in loan delinquencies.

However, that has failed to disturb the financial markets' general confidence in bank credit quality.

"Delinquency rates and charge-off ratios are nothing - it's frankly not something we're concerned about," said Mr Bill Key, a fixed income analyst at UBS in New York.

He said recent large share buy-back programmes announced by a number of banks would not weaken their balance sheets either, since the banks were likely to generate sufficient profits in the coming months to fund the buy-backs without dipping into their capital.

Mr Michael Foley, a Moody's vice-president, said their new size made the biggest banks better able to invest in the latest technology needed to support a network which was less dependent on traditional branches.

These banks were finding new ways to fight back against the non-bank finance and credit card companies that in recent years have encroached on their business, he said.

FTC rejects plan by BAT to sell six discount brands

By Richard Tomkins
in New York

The US competition authorities dealt a blow to BAT Industries of the UK when they rejected the company's plan to sell six discount cigarette brands to Lorillard Tobacco, one of the smaller US cigarette manufacturers.

The Federal Trade Commission said it was not convinced that Lorillard would compete aggressively in the discount cigarette market.

It also cited concerns that Lorillard had declined to buy the factory that makes the six brands, resulting in its probable closure.

BAT acquired the brands when it bought American Brands for \$1bn at the end of 1994. It merged the company with its Brown & Williamson Tobacco subsidiary.

The FTC originally sought to block the deal because of the trust grounds, but withdrew its opposition in exchange for undertakings that BAT would divest some of American Tobacco's minor brands and seek a buyer for American Tobacco's main factory in Reidsville, North Carolina.

Last November, BAT said that Lorillard had agreed to buy the US domestic rights to six discount brands: Montclair, Malibu, Riviera, Crows, Bull Durham, Crows and Special Tens. But the factory would

close, BAT said, since Lorillard had decided not to buy it.

The FTC said yesterday it was blocking the deal because Lorillard's main product was a full-price menthol brand - Newport - and it "has not demonstrated that it has been involved in the promotional activity necessary to maintain and grow a discount brand".

It added that Lorillard's refusal to buy the factory would "eliminate the possibility of removing from BAT's control the excess capacity that the plant represents and placing it in the hands of an aggressive competitor that could use the capacity to increase production".

BAT said: "It's a little odd to think you would buy a brand and not compete with it. But we are still very pleased with the American Tobacco acquisition, and now we have to get on a find someone else who will satisfy the FTC."

In theory, BAT could be forced to reverse the acquisition if it is unable to find a suitable buyer.

BAT said the most likely buyer would be a US company already in the cigarette business. However, it said Liggett, the other small US tobacco company, would probably not be acceptable to the FTC because Mr Bennett LeBow, its owner, is currently trying to acquire control of RJR Nabisco, the second-biggest US tobacco company.

Novo Nordisk A/S

The Company will hold its Annual General Meeting of Shareholders on
Tuesday, 30 April, 1996, at 4.30 pm at Laursensvej 45, Bagsvaerd, Denmark

Agenda

- The Board of Directors' report on the Company's activities in the past financial year.
- Presentation of the Financial Statements, the Auditors' Report and the Annual Report as well as the Consolidated Financial Statements.
- Resolution concerning adoption of the Profit and Loss Account and the Balance Sheet, including discharge of Management and Board of Directors from their obligations.
- Resolution concerning application of profits according to the adopted Financial Statements.
- Election of members to the Board of Directors.
- Election of auditors.
- Proposals from the Board of Directors:
 - to change Article 4 (a), 2nd sentence, of the Articles of Association so that the present authorisation to the Board of Directors to issue employee shares by up to a total of DKK 25 million of B Shares is prolonged until 30 April, 2001;
 - to change Article 4 (a), 3rd sentence, of the Articles of Association so that the present authorisation to the Board of Directors to increase the share capital by up to a total of DKK 100 million of B Shares, in connection with the acquisition of an existing enterprise and without pre-emptive subscription rights to existing shareholders, is prolonged until 30 April, 2001;
 - to change Article 4 (a), 5th sentence, of the Articles of Association so that the present authorisation to increase the share capital in one or more stages by up to a total of DKK 100 million is prolonged until 30 April, 2001;
 - to change Article 15 (f) of the Articles of Association from:

"Members of the Board of Directors shall receive a fixed annual fee of DKK 55,000 in the case of the Chairman and DKK 27,500 in the case of other members of the Board of Directors. Such fees are based on the index of net retail prices of January, 1975, and such fees shall be annually adjusted based on changes of the index of net retail prices."

"Members of the Board of Directors shall receive an annual fee to be fixed by the Company in General Meeting in connection with the adoption of the Financial Statements."
 - to change, as a consequence of the proposed changes to Article 15 (f) of the Articles of Association, Article 13 (b) of the Articles of Association in the following manner:

(i) In subarticle 3 the words:

"After the holders of B Shares have received a 5% dividend, the remaining profit shall be distributed as follows:"

 shall be deleted.
 - Subarticle 4 on bonus to the Board of Directors shall be deleted.
 - Subarticle 5 shall be changed to subarticle 4 and have the following wording:

"4. After the holders of B Shares have received a 5% dividend, the remaining profit shall be transferred to reserves, distributed as additional dividends or as otherwise specified by the Company in General Meeting upon the proposal of the Board of Directors. However, in case of distribution of additional dividends, the holders of A Shares shall never receive a dividend exceeding the dividend paid to the holders of B Shares in terms of percentage."
- to authorize the Board of Directors, until the next Annual General Meeting, to let the Company acquire own shares of up to 10% of the share capital and at the price quoted on the date of purchase with a deviation of up to 10%, cf. Section 48 of the Danish Companies Act.
- Miscellaneous.

To adopt the proposals for amendment of the Articles of Association under the Agenda's items 7(a)-7(e), at least 2/3 of the total number of votes in the Company shall be present at the General Meeting and at least 2/3 of as well the votes cast as of the share capital represented at the General Meeting shall vote for the proposals, cf. Article 10 (b) of the Articles of Association.

To adopt the remaining proposals, a simple majority of votes is required.

Admission cards and ballot papers are available from: Den Danske Bank phone: +45 33 44 51 40 or by written application or for collection at the address Novo Alle, DK-2880 Bagsvaerd, building 6A, on weekdays between 10 am and 2 pm.

Admission cards and ballot papers are available according to Article 11 of the Articles of Association until five days before the Annual General Meeting (i.e., up to and including Thursday, 25 April, 1996).

Admission cards and ballot papers duly applied for beforehand and in writing, and which you prefer to collect personally, are available for collection at Novo Alle, DK-2880 Bagsvaerd, building 6A, from Monday, 15 April 1996 to Monday, 29 April, 1996, both days included, on weekdays between 10 am and 2 pm.

If shares are entered in the Company's Register of shareholders under the holder's name, admission cards and ballot papers will be issued to the shareholder when stating the nominal value of his/her shares.

In respect of shares not entered in the Company's Register of shareholders, admission cards are issued against production of documentation of ownership, satisfactory to the Company, e.g., a deposit statement not more than five days old from The Danish Securities Centre or the institution holding the shares on deposit, as documentation for the shareholding, together with a written declaration from the shareholder stating that the shares neither have been sold after issuance of the statement nor that it is the intention of the shareholder to do so before the Annual General Meeting has been held.

The Agenda, the exact wording of the proposals and the Financial Statements, the Auditors' Report, the Annual Report as well as the Consolidated Financial Statements will be available for inspection by the shareholders at Novo Alle, DK-2880 Bagsvaerd, building 6A, on weekdays between 10 am and 2 pm from Monday, 15 April to Tuesday, 30 April, 1996, both days included. The Agenda and the Annual Report will automatically be sent to all shareholders whose shares are registered under the holder's name in the Company's Register of shareholders. The documents are also available from the Company or from Den Danske Bank, London Branch, 75 King William Street, London EC4N 7DT.

The dividend as approved at the Annual General Meeting will - after deduction of withholding tax - be sent to Novo Nordisk A/S shareholders directly via The Danish Securities Centre.

Bagsvaerd, April, 1996
The Board of Directors

CREDIT COMMERCIAL DE FRANCE
FRF 500,000,000 REVERSE FLOATING BONDS DUE 1998
CODE ISIN : XS0043048882
For the period April 08, 1996 to October 08, 1996
the new rate has been fixed at 8.75% p.a.
Next payment date: October 08, 1996
Amount: FRF 493,24 for the denomination of FRF 100 000
FRF 4 832,26 for the denomination of FRF 100 000
FRF 24 161,77 for the denomination of FRF 500 000
COUPON NR : 6
THE PRINCIPAL PAYING AGENT
SOCIETE GENERALE BANK & TRUST - LUXEMBOURG
11-13, Avenue Emile Reuter
L-2420 LUXEMBOURG

SEA SOCIETE GENERALE ACCEPTANCE N.V.
FRF 300,000,000 REVERSE FLOATING RATE NOTES DUE APRIL 2003
ISIN CODE : XS0041392784
For the period April 09, 1996 to July 08, 1996 the new rate has been fixed at 10.375% p.a.
Next payment date: July 08, 1996
Amount: FRF 290,28 for the denomination of FRF 100 000
FRF 2 592,72 for the denomination of FRF 100 000
FRF 12 567,00 for the denomination of FRF 1 000 000
COUPON NR : 10
THE PRINCIPAL PAYING AGENT
SOCIETE GENERALE BANK & TRUST - LUXEMBOURG

SINO LAND COMPANY LIMITED

(a company incorporated in Hong Kong with limited liability)
US\$200,000,000 6% Convertible Bonds due 2000 ("Bonds")

NOTICE TO BONDHOLDERS

The Directors of Sino Land Company Limited ("the Company") on 28 March, 1996 declared an interim dividend of HK\$0.08 per share for the year ending 30 June, 1996 to shareholders whose names appear on the register of members on 28 April, 1996. The interim dividend is payable on 27 May, 1996.

The register of members of the Company will be closed from 17 April, 1996 to 25 April, 1996 (both dates inclusive). Registered holders of existing Bonds who wish to exercise their conversion rights attaching to their Bonds so as to be entitled to the said interim dividend should lodge the properly completed and signed conversion forms together with the Bond certificates with their Agent so as to reach the Company before 4.00pm (Hong Kong time) on 28 April, 1996.

By Order of the Board
Eric Ip Sei-fong
Secretary
Hong Kong

11 April, 1996
By: Citibank, N.A. (Issuer Services), Agent Bank **CITIBANK**

صبيحان الامال

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COMPANIES AND FINANCE: UK

Forecasts for Smurfit hit by paper fears

By Patrick Harverson

The problems of the worldwide paper industry were underlined yesterday when City analysts sharply downgraded their profits forecasts for Jefferson Smurfit after the Irish group warned the downturn in the market could extend into 1997 because of poor demand, volatile prices and overcapacity.

Reporting pre-tax profits of £100m (\$65m) up from £119m before exceptional items in 1994, Smurfit said the deterioration in trading conditions at the end of 1995 had continued this year with demand for corrugated containers weakening and overcapacity.

It said demand would not catch up with supply and prices would not improve until economic growth strengthened.

The warning prompted analysts to slash their profits forecasts for the next two years. UBS, broker to Smurfit, cut its forecast for 1996 profits from £200m to £150m and for 1997 from £240m to £190m.

The gloomy outlook contrasted with the record annual results Smurfit unveiled yesterday. The increase in profits and turnover, which rose from

£1.71bn to £3.03bn, was put down to the sharp rise in paper prices and demand in the first three quarters of the year, and to the contributions from acquisitions, notably Cellulose du Pin. Bought in 1994 for £264m, the French container board manufacturer accounted for the bulk of the £140m in profits and the £1bn in sales that acquisitions contributed last year.

Smurfit made several overseas acquisitions or foreign investments during the year, including a joint venture in China by its US associate, Mr Dermot Smurfit, joint deputy chairman and son of the founder, said the group would pursue careful expansion in the Far East and would look for acquisition opportunities elsewhere.

Although gearing rose last year to 40 per cent, Mr Smurfit claimed the group still had the capacity to take on another deal comparable to the Cellulose du Pin acquisition. He said Smurfit was a "buyer rather than a builder" of new capacity.

The group's continental European operations made profits of £195.4m, up from £34.6m.

Lex, Page 10

A background of higher demand helps justify aggressive rises Granada raises hotel prices 15%

By Raymond Snoddy and David Blackwell

Granada Group has pushed through average price increases of 15 per cent a room in the 19 London hotels acquired from Forte earlier this year.

The rises have been phased in over the past few months and in several hotels the increase has been as high as 20 per cent.

News of the aggressive Granada move against a background of rising demand and higher occupancy rates in the London hotel market came as the company gave a positive trading update to City analysts. "They could have talked down expectations - but if anything they stoked the fires," said one analyst.

However, the group also said it was in no hurry to dispose of its upmarket hotels to cut debt.

Mr Charles Allen, Granada chief executive, said he would be producing a detailed profit improvement-cost analysis for each hotel. The group had followed a similar policy with the White Hart chain, sold to Regal Hotels last week.

He also confirmed that Sir Rocco Forte, the former chairman of the Forte Group, was still formally interested in bidding for

some of the hotels the company used to own.

Meanwhile, Granada was experiencing "good performance" from all divisions. Mr Allen was "comfortable" with forecasts at the time of the hostile £3.9bn takeover that in the year to September 1997 Granada could realise a profit improvement in the former Forte businesses of £100m.

The price rises in the London hotels are part of general rises introduced by Granada across the former Forte businesses. Increases of 25 and £10 are being introduced to Posthouse Hotels where rooms currently range from £59 to £78 a night.

Travelodge prices have already been increased from £34 to £36.50 with no effect on bookings and the aim is to move to £39 after improvements have been introduced including the installation of satellite television.

Granada is also involved in discussions with the Inland Revenue to see whether the company can spread capital gains tax from the planned sale of Exceunive and Meridian hotels across the whole £3.9bn acquisition. Tax payments of more than £20m are expected on hotels in France and Spain.



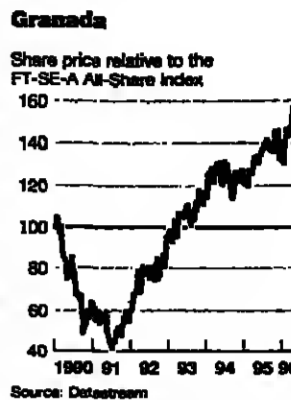
Charles Allen preparing detailed profit/cost improvement analyses for each hotel

LEX COMMENT Granada

Given the possible pitfalls of bedding down the £3.9bn acquisition of Forte, no news from Granada's trading statement was the best news investors could have hoped for. The performance of the group's TV and catering interests has confounded concerns that these divisions would suffer while the management's attention was tied up elsewhere. Meanwhile, Granada is delivering on its promise to boost Forte's profitability. The raft of UK hotel price rises being implemented amount to more than £30m of annualised operating profit. And given an increasingly favourable hotel market, occupancy should not suffer. Having got the consolidation of Forte under way, Granada's near-term share performance will be driven by disposals. The management has made strenuous efforts to defer analysts' expectations of quick sales, and given Granada's strong cash flow its current £3.9bn of net debt is not particularly worrying. Nonetheless, the pitiful return on assets of Forte's trophy hotels means their sale represents an easy means of boosting earnings.

The company looks to have found a way of minimising capital gains tax liabilities even if it sells hotels in a piecemeal fashion. Given the current strength of the London hotel market, it should be able to make a few attractively priced disposals in the foreseeable future.

Even if there were no disposals, profits of £40m in the year to September 1997 would leave the shares on a small premium to the market average, after taking out the current value of the BskyB stake. With the prospect of earnings enhancing disposals, this still looks cheap.



United Airlines sues GEC-Marconi

By Bernard Gray

GEC-Marconi is being sued by United Airlines because the \$100m in-flight entertainment system it has provided for the new Boeing 777 jetliner does not meet the agreed specification. United is claiming damages because the system supplied by GEC is less advanced than claimed. GEC said yesterday that it would defend the Illinois lawsuit and wanted United to pay for the equipment it has already supplied.

United has also cancelled a contract to upgrade its existing fleet of Boeing 747 and 767 aircraft with the Marconi system. The two contracts together are worth \$100m and United may claim additional damages.

The action is embarrassing for GEC, which has been vying for a share in the potentially lucrative, but competitive, in-flight entertainment market. GEC agreed in 1992 to supply United with an advanced interactive entertainment system, allowing passengers to order duty

free goods or play arcade-style computer games as well as watch films on the 777.

Problems meant that the system was not ready for the aircraft's launch last June. United was supplied with a less sophisticated version without the interactive facilities. However some of United's pre-launch publicity put emphasis on the interactive system, embarrassing the airline.

GEC said it was surprised as it had been holding meetings with United to resolve the problems.

Standard Life loses chief

By Norma Cohen

Mr Dick Barfield, chief investment manager at Standard Life and one of Britain's most prominent shareholder activists, is to resign his post at the end of June to pursue other interests.

"It's very much a personal decision to go and do something for myself," said Mr Barfield, who has been with Standard for 26 years, in the past eight as its investment director. "It's really a quality of life decision." He will receive no compensation.

Standard has £44bn in assets under management and owns about 2.3 per cent of the UK stock market.

The company, Europe's largest mutual insurer, has benefited from the high profits Mr Barfield gave it through his role as a shareholder activist. It recently led an unsuccessful revolt among shareholders to Farnell Electronics, the UK engineering group, over its plans to acquire US-based Premier Industrial Corporation.

Mr Barfield will be replaced by Mr John Thomson, involved in developing Standard's international expansion strategy.

Rentokil expected to increase BET bid

By Geoff Dyer

Rentokil, the business services group, is expected this morning to increase its hostile £1.9bn (\$2.88bn) bid for rival BET by at least 10p per share.

Institutional investors in BET, some of whom have met both the groups over the last few days, predicted last night that any increase in the cash and paper offer would be in the range of 10p-25p.

Rentokil said last night that a final decision on the timing or size of an increased offer had yet to be made and it has until tomorrow to decide. However sources close to the group suggested that it was likely to move today.

Hammerson pays £81m for Berlin shopping centre

By Simon London, Property Correspondent

Hammerson, the property investment and development company, has added to its portfolio of continental European assets with the £81m (\$123m) acquisition of a Berlin shopping centre.

The deal follows a spate of acquisitions by the company in France, but is Hammerson's first in the German market since 1990.

The company is paying DM153.4m for a 93 per cent stake in the Märkisches Zentrum shopping centre in a northern suburb of Berlin.

The 1960s centre, comprising 106 shops, is being acquired

Departing Rank chief defends sale

By Michael Cliford

Mr Michael Cliford yesterday bowed out as chief executive of Rank Organisation, the leisure group, with a spirited defence of last year's sale of 40 per cent of its Rank Xerox stake for £620m, writes David Blackwell.

In reply to a question from a private shareholder, Mr Cliford, chief executive for the past 12 years, told the annual meeting that the group had seized an opportune moment to reduce the stake in the office

equipment joint venture and reinvest the proceeds. The full effect had not been seen yet - "but you will see it going forward", Sir Denis Henderson, chairman, said Mr Cliford had refocused Rank into a leisure and entertainment company with market leading positions in cinema, bingo and holidays.

Mr Andrew Teare, formerly head of English Chinas Clays, took over as chief executive at the end of the meeting.

Yields in the German property market are among the lowest in Europe, partly reflecting the strong appetite of domestic investors for property investments.

However, Hammerson's cost of D-Mark funds to finance the acquisition will also be relatively low, in line with German interest rates. Mr Spinyey said that the average cost of debt, including loans which were being assumed, would be less than 5 per cent.

Hammerson already owns three retail properties in Germany, accounting for 7 per cent of gross assets. In 1995 the value of its German portfolio fell 7.7 per cent.

Standard Life's largest mutual insurer, has benefited from the high profits Mr Barfield gave it through his role as a shareholder activist. It recently led an unsuccessful revolt among shareholders to Farnell Electronics, the UK engineering group, over its plans to acquire US-based Premier Industrial Corporation.

Positive Aim outweighs negative Christopher Price on the progress of the fledgling companies market

The Alternative Investment Market, which has had a remarkably trouble-free existence since launching last June, has had some anxious moments recently.

Directors being censured, star stocks falling dramatically and the market index slipping below its launch level have all emerged to tarnish its polished image.

Yet far from causing ructions, these developments have caused only minor ripples, underlining Aim's growing reputation as part of the London financial establishment.

Negative developments have, in any case, been offset by more positive aspects, such as the number of new issues, an increase in City firms deciding to make markets in Aim stocks and record trading last month.

Ironically, it was one of the darlings of the junior market - Firecrest, the media services group - which prompted the Stock Exchange to make its first public censure over the granting of share options.

The move will have been a worrying one for the authorities. To Aim's establishment, critics, including many institutional investors, argued that the less onerous joining regulations would attract inexperienced management and unsuitable companies. The exchange, however, said the new market needed lighter entry requirements - such as a shorter trading record, a lower percentage of shares in public hands and no sponsor - in order to attract young and

dynamic companies.

Firecrest was also one of a handful of last year's star performers on Aim to see a sharp share price fall this year. Its shares have retreated from more than 200p at the end of the year to 70p yesterday - although they are still nearly double their July placing price.

Shares in Memory Corporation, which repairs microchips, plunged after the company reported disappointing results last month. It came to Aim via a placing at 420p, and its shares subsequently reached 506p; they closed at 150p yesterday. Shares in Antonov, the specialist gearbox group, have halved in the past six months.

These three companies were among the heaviest traded of Aim stocks and their fall is largely behind the underperformance of the Aim index, which missed out on Aim's buoyant first six months as it was only launched at the

beginning of this year. From a base of 1,000, it closed the first quarter at 983.9.

Far from being concerned, dealers dismiss the declines as a reflection of the vagaries of a smaller companies' market, where liquidity - the percentage of shares free to be traded - is often difficult to maintain.

The result is more extreme movements in price than seen in the main market. Firecrest, Memory Corporation and Antonov all have less than 40 per cent of their shares in public hands.

To underline the argument, they point to the likes of Celtic Football Club, up 77 per cent over the first quarter, Pan Andean Resources, quadrupled at 76p, and Financial Publications, trebled at 246p, as testimony to the market's other extreme.

The lack of liquidity, which has frustrated previous attempts to establish a small

companies' market, has also discouraged City firms from making markets. However, Aim is gradually winning more converts among both institutional investors and market-makers.

Marshall Lynch recently became the first big stockbroker to commit itself to Aim, making markets in 25 of the 130 or so stocks. Other big houses have also begun dabbling, particularly with an eye on the end of the Unlisted Securities Market on December 31, with many of the 300 or so stocks expected to join Aim.

Turnover last month reached £133.4m, Aim's highest in a single month, with the number of bargains also at an all-time high of 15,547. Meanwhile, the amount of money raised since the market began passed £300m during March, and institutional investors played an increasing part.

Spurred on by a combination of lower admission costs and easier joining regulations, entrants to Aim were behind an increase in the overall number of flotations during the first quarter. Of the 46 new issues in the period, 30 were on Aim, compared with 22 last year.

Taken together, the positive news has outweighed the recent disappointments and maintained Aim's momentum. However, they also demonstrate that Aim is not immune from the illiquidity and the riskiness that tend to plague small company markets.

DAIMLER-BENZ Annual General Meeting 1996

We hereby invite our shareholders to the 100th Annual General Meeting which will be held on Wednesday, May 22, 1996 at 10:00 a.m. in the Hanns-Martin-Schleyer-Halle, Mercedesstrasse 69, 70372 Stuttgart (Bad Cannstatt).

Agenda (short version)

1. Presentation of the financial statements, the consolidated financial statements and the combined balance sheet review for Daimler-Benz Aktiengesellschaft and the Daimler-Benz group for the 1995 financial year.
2. Formal approval of the Board of Management's actions for the 1995 financial year.
3. Formal approval of the Supervisory Board's actions for the 1995 financial year.
4. Election of auditors for the 1996 financial year.
5. Adoption of a resolution concerning the change of the minimum par value of shares to DM 5.00 and the reclassification of the capital stock as well as amendments to the articles of association.
6. Adoption of a resolution concerning the creation of new authorized capital with the possibility of partial exclusion of the preemptive rights of the existing shareholders and amendment to the articles of association.
7. Adoption of a resolution concerning the extension of the authorization of the Annual General Meeting of May 18, 1994 for the issue of convertible bonds or options in addition to the simultaneous expansion of conditional capital stock in accordance with § 3 Par. 4 of the articles of association and amendment to the articles of association.
8. Adoption of a resolution concerning authorization for the sale of convertible bonds to top executives in addition to the simultaneous creation of conditional capital stock and amendment to the articles of association.

Entitlement to attend the Annual General Meeting and to exercise voting rights is restricted to shareholders who in accordance with the Articles of Association deposit their shares or the certificate of their shares at the latest by Tuesday, May 14, 1996 at the depositary below or with the company or with a German notary or a bank until the end of the Annual General Meeting.

The depositary in the United Kingdom is Deutsche Bank AG London.

Shares can also be deposited properly if with the consent of a depositary they are blocked by a bank until the end of the Annual General Meeting.

A copy of the annual report as well as admission cards for the Annual General Meeting can be obtained from Deutsche Bank AG London, 6 Bishopsgate, London EC2P 2AT.

Stuttgart-Möhringen, April 11, 1996

Daimler-Benz Aktiengesellschaft
The Board of Management

CREDITANSTALT BANKVEREIN

US\$250,000,000
Subordinated collateral floating rate notes due 2003

Notice is hereby given that for the interest period 11 April 1996 to 11 October 1996 the notes will carry an interest rate of 5.40215% per annum. Interest payable on 11 October 1996 will amount to US\$139,59 per US\$100,000 note and US\$2,791.96 per US\$100,000 note.

Agent: Morgan Guaranty Trust Company
JPMorgan

IRISH PERMANENT
A LIFE SOCIETY

£100,000,000
Floating rate notes 1998

Notice is hereby given that for the interest period from 9 April 1996 to 9 July 1996 the notes will carry an interest rate of 4.0235% per annum. Interest payable on 9 July 1996 will amount to £129.36 per £10,000 note and £1,293.50 per £100,000 note.

Agent: Morgan Guaranty Trust Company
JPMorgan

EUROPEAN COAL AND STEEL COMMUNITY

FFP 500,000,000 FRB 100,000,000

Notice is hereby given that the notes of support for the period from April 1996 to September 1996 will carry an interest rate of 5.7500% per annum. The coupon amount due to the holder on 15 April 1996 will amount to FF 1,500.00 per FF 100,000 note and FF 15,000.00 per FF 1,000,000 note and FF 150,000.00 per FF 1,000,000 note and FF 1,500,000.00 per FF 10,000,000 note.

Agent: DNP
DNP

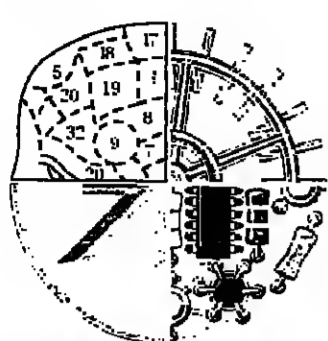
Company	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividends corresponding dividend	Total for year	Total for year
AAF Inds	23.5 (41.2)	0.853A (2.9)A	4.36 (12.25)	nil	nil	nil	4.36	4.8
Alpha Airports	592.8 (79.5)	20.6 (21.4)	8.24 (10.0)	3.25	-	3	5	4.8
Calsonidion Trust	1.522 (1.522)	0.247 (0.506)	3.3 (9)	nil	-	0.24	nil	0.24
DeLaval	16.9 (134.3)	0.51 (0.74)	0.5 (0.5)	nil	July 1	3	4.6	4
Firecrest	146.8 (134.3)	7.72A (5.2)	12.8 (10.1)	3.5	July 1	7.3	13.4	11.5
Intermediate Corp	-	19.1 (17.9)	27.6 (27.2)	8.1	May 24	5	18	12
Mass Bros	87.5 (71.1)	11.3 (7.4)	42.53 (27.8)	13	May 31	5	18	12
Barry VCT	18.9 (14.5)	0.051 (0.207)	0.01 (0.16)	0.70	June 3	nil	nil	nil
Besse	239.8 (240.1)	8 (8.41)	10.4 (11.8)	4.2	May 31	4.2	6.1	6
Rubikind	7.32 (7)	1.56 (0.77)	22.8 (15.8)	5.1	June 3	3.6	4	2.65
Sandring	3.032 (1,710)	420 (317.19)	28 (28.5)	2.8	June 28	1,952	4	7
Smurfit	390.8 (390.8)	33.7 (28.5)	20.3 (17.3)	4.8	July 5	4.2	4	7
Yule Catto	-	-	-	-	-	-	-	-

Investment Trusts	Turnover (£m)	Attributable profit (£m)	EPS (p)	Current dividend (p)	Date of payment	Corresponding dividend	Total for year	Total for year
New City & Dartford	131.2 (105)	0.868 (0.559)	5.26 (4.41)	3	June 4	2.85	4.3	4.15

Earnings shown basis: Dividends shown net. Figures in brackets are for corresponding period. *After exceptional charge. †After exceptional credit. ‡On increased capital. §Aim stock. □Revised income. ††Income. †††4th currency. ††††Equivalent after allowing for scrip issue.

TECHNOLOGY

Worth Watching · Vanessa Houlder



Japanese theory to brain mystery

One of the mysteries about degenerative brain diseases, such as BSE in cattle and Creutzfeldt-Jakob in people, may have been solved by a Japanese research team. Clive Cookson writes.

Such diseases are caused by infectious protein particles called prions, which convert a harmless brain protein into a lethal form, simply by changing shape. But no one knows the normal role of this prion protein.

Shigeru Kato and colleagues at Nagasaki University medical school report in Nature today that genetically engineered mice, which lack the gene for prion protein, behave normally until they are about 70 weeks old. Then they develop ataxia (impaired motor co-ordination) and become increasingly unsteady on their feet.

Post-mortem examinations show an extensive loss of so-called "Purkinje neurons" - brain cells required for motor co-ordination - in the mice. The scientists conclude that normal prion protein plays a role in the long-term survival of these cells.

Curiously, two other research groups have produced mice lacking the same prion protein gene, which show no symptoms of ataxia.

The Japanese put forward several possible reasons for the apparent discrepancy, including differences in genetics and breeding conditions between the laboratory strains used.

Shigeru Kato *Nature*, Japan, tel 858 497055, fax 953 497060.

2D converted into 3D

Xenotech, a Perth-based developer of a three-dimensional television system, has developed a process for converting two-dimensional

film and video into a form that can be viewed in 3D.

The viewer can see the converted image in 3D on a standard television using special glasses; alternatively, it can be seen on a dedicated Xenotech screen without special glasses.

The main weak spot of the system - which uses two projected images, one going to the viewer's left eye and one going to the right eye - is that only one person can watch the screen at a time. Its earliest applications are likely to be in video arcade games.

The Xenotech system was licensed to Samsung of South Korea in 1994.

Xenotech, Australia, tel 94463366; fax 94463340.

Laminated glass shuts out noise

The noise levels in buildings could be cut down significantly by using a newly developed laminated glass, according to a Derby-based specialist.

The Whisperry system developed by Plyglass is made of two sheets of glass separated by a layer of transparent resin. Plyglass says that the three-layered glass is more effective than traditional double glazing in shutting out traffic noise.

In very noisy environments, such as airports and factories, it can be used in double glazing units filled with an inert gas to cut down noise levels even further.

Plyglass, UK, tel (01173) 520000; fax (01173) 520052.

The wind blown out of camping

Trying to heat food or water in a gale can dampen the enthusiasm of the most ardent camper.

Camping Gaz has tackled the problem by launching a flameless portable stove that can safely cope with wind speeds of up to 10 metres per second and temperatures of minus 8°C.

The Trek 270 stove, which costs £49.95, generates heat from a reaction between gas and a catalytically-coated material. The heat is radiated by the burner through a vitro ceramic glass cover directly into the base of a pan, similar to the workings of a halogen hob.

Camping Gaz, UK, tel (01173) 691707; fax (01173) 691671.

Television used to be described as radio with pictures. But a new digital broadcasting system could introduce radio receivers that can display moving video pictures. It may also bring a new way of delivering data to users of mobile computers and other portable digital devices.

The digital audio broadcasting (DAB) system is a European standard for a digital radio system that could one day replace existing analogue AM and FM services.

Analogue services transmit sound in the form of a wave, but DAB transmits audio in the form of computer code. As a result, DAB offers interference-free sound whose quality is close to that offered by the compact disc.

A number of countries are running DAB trials or services, including France, Germany, Norway, Switzerland, Canada, South Africa and the UK. Electronics companies such as Philips, Sony, Panasonic, Grundig and Pioneer are developing DAB receivers, which are expected to reach the consumer market within the next 18 months.

So far, DAB has been promoted as a radio system. But earlier this year, the German electronics company, Rohert Bosch, and the national telephone company, Deutsche Telekom, demonstrated that it could also be used for transmitting full-motion video pictures to moving vehicles.

The modified DAB system - dubbed digital multimedia broadcasting or DMB - can also transmit sound, data, text, graphics or still video pictures. DMB uses the flexibility offered by the DAB standard and digital technology. DAB allows up to six stereo audio channels to be combined or multiplexed into a single data stream.

Moving video pictures require much more data than sound, so DMB uses all six data channels to transmit a single video programme with sound. A conventional DAB receiver normally processes the six data channels separately, but Bosch has developed a special DAB receiver that can handle all six data channels together. The receiver has the equivalent computing power of several personal computers.

Before transmission, the video is compressed and combined with audio and other data, including an error protection system that corrects transmission errors. The combined video, audio and data package falls within the DAB specification for data transmission.

The picture quality offered by DMB is equivalent to the VHS video format, but Bosch and Deutsche Telekom say this is adequate for small and medium-sized screens. What is more, improved compression systems could bring broadcast-quality video pictures.



Highway mode: the DAB receiver allows pictures to be received in a car and could be used in public transport vehicles

The wireless with moving pictures

Digital multimedia broadcasting can open a new era of sound and image transmission, writes George Cole

In the demonstration hosted by Bosch and Deutsche Telekom, the DMB system was compared with the analogue PAL television format used by most of western Europe. A specially developed DAB receiver was set up in a car, which was driven at high speed. When the PAL pictures were displayed, they suffered from interference, but the DMB images were clear. This is due to the way the analogue and digital pictures are transmitted.

The PAL picture signal is in the form of a wave, and this can be reflected off hills and high buildings, causing effects such as picture roll, loss of colour and ghosting, which forms shadow images.

But DMB uses a system that splits the video signal into hundreds of small data packages which are transmitted separately. The packages are reassembled by the modified DAB receiver. The advantage of this system is that any transmission errors will affect only a small portion of the signal, and this can be patched up. DMB technology may be elegant,

but has it any practical applications? Bosch and Deutsche Telekom think so. "Critics are bound to ask: do people really need full-motion picture reception in a car? Wouldn't it distract the driver?" says Gert Siegle, director of research and advanced development at Bosch.

"No one thinks anyone should watch television while driving, but being able to watch news, information or entertainment programmes while riding on public transport or even in the back seat of a car would be an interesting alternative for passengers."

DMB could also be used for a new generation of car information systems that employ speech or pictures to inform drivers about traffic conditions, detours or parking, says Siegle.

Attention is also turning to using DAB for data transmission services. DAB's relatively fast data rate - around 60 times faster than fax or 40 times faster than the input rate (from a modem) of most personal computers - means that it could be used for delivering large amounts of

data to mobile computer users. "Surveys have revealed that highly mobile people are especially interested in having the services they use at home or at the office available while on the road, too," says Siegle, Bosch and Deutsche Telekom suggest computer users could subscribe to a raft of wireless data services delivered by DAB. Siegle thinks pocket-sized DAB data receivers equipped for fax reception may also become available.

DAB is compatible with computer language used on the Internet. This means companies providing information and services on the Internet could also transmit them via DAB. "We could see PC manufacturers introducing computers with built-in DAB cards for receiving data in this way. Data services will be an important part of DAB," says Mike Thorne, radio business manager of NTL, the UK broadcasting and telecommunications company.

Skin cancer chaos

Chaos theory, the study of non-linear systems, has found uses ranging from finance to engine design. Now Russian scientists and their partners in an EU-funded project are hoping that chaos theory can help detect skin cancer.

At present, anyone with suspected skin cancer has to undergo a biopsy. But a team of scientists taking part in the EC's Esprit programme believe they can provide doctors with a detailed picture of hidden tissue structures by shining light at the skin and using their understanding of chaotic systems to analyse the resulting image. The diagnostic technique, called optical tomography, has been developed by scientists at the Solvay Institute in Brussels and the Institute of Applied Physics in Nizhny Novgorod, working in conjunction with the National Hospital in Athens.

It involves shining infra-red light on the suspected cancer and capturing the scattered rays using a highly sensitive interferometer. The resulting data cannot be analysed using classical mathematics, since the light is highly scattered in the tissue. That means that the trajectory of individual photons is chaotic, and so extremely sensitive to infinitesimally small changes in initial conditions.

Instead, the mathematicians have used their expertise in chaos theory to make sense of the available data, which includes the intensity of the dispersed light, the arrival time of the photons and the optical interference patterns they produce.

The resulting algorithms have allowed scientists to visualise accurately very small details in skin to a depth of 0.8mm. "The first experiments are highly encouraging," says Ioannis Antoniou, deputy director of the International Solvay Institutes for Physics and Chemistry.

He believes that a prototype that can detect changes in tissue several millimetres below the skin surface will be produced within three years.

Vanessa Houlder

Dutch study

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سكنا من الاجل

COMMODITIES AND AGRICULTURE

Dutch study highlights EU farm policy cost Fund manager predicts price rises for gold and base metals

By Alison Mallard
The Common Agricultural Policy costs the average Dutch family about 7 per cent of their disposable income...

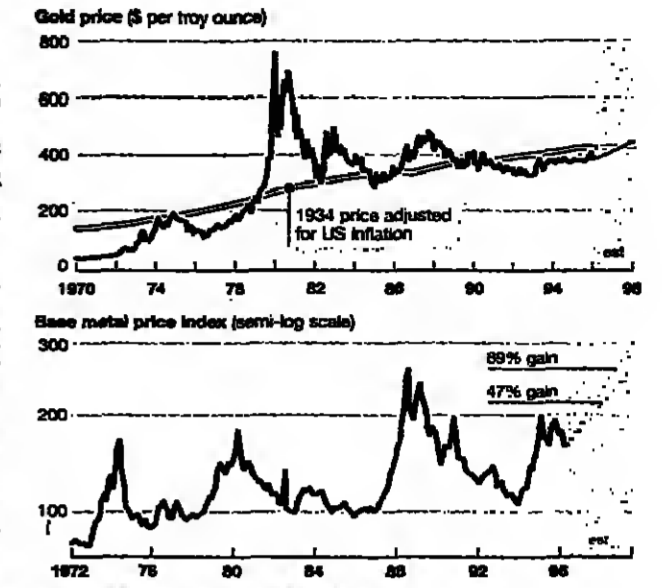
Inflated food prices, despite the MacSharry reforms of 1992. The Dutch report said the CAP cost a family with two children at least Fl 3,200 (Dfl1,720) in 1993...

"We have to wait and see whether the reforms are really effective in reducing the cost, but even 45 per cent of disposable income would be a large amount of money," he said.

The study concludes that farm support policies are very costly and largely ineffective in achieving their stated aims, such as enhancing rural living standards and ensuring reasonably-priced food.

support for full-time, small-scale farmers. The idea of targeting help at smaller farmers has been revived recently by the European Commission...

Base metals and gold producers can look forward to higher prices in the next few years, according to executives at Mercury Asset Management...



Source: Datastream, MAM, Economist Base Metal Index

Desert sun tips the scales for Negev fish farmer Mark Dennis relates an unlikely success story set on the Egyptian-Israeli border

Mr Yitzhak Levy is an improbable farmer in an arid environment. He is not only Mr Levy's fish-farming technique working and profitable, it produces yields far beyond those of similar ponds in more traditional settings.

est yields in the world for closed warm water ponds - 20kg per cubic metre. Each US\$50,000 pool produces eight to ten tonnes of fish annually.

viously considered unusable. The 28° C water is part of an integrated system that first heats greenhouses before going to the pools.

tem is more expensive than traditional ponds, production costs are actually lower overall because of the superintensive breeding, says Ms Collette Tzuria, a Jewish Agency official who oversees the agricultural development of the Negev.

The bubble pools have received much attention from outside Israel, but Mr Mires of the ministry of agriculture is cautious about the immediate application of the technology to other countries.

While agreeing with those analysts who suggest that copper will probably be in oversupply in 1997 and 1998, Mr Birch warns that production of the metal is concentrated in relatively few geographic centres and supply can be unpredictable because of unexpected interruptions. He says the col-

Yitzhak Levy's superintensive farm is not only profitable but is producing yields far beyond those of similar ponds in more traditional settings

ponds produce around four tonnes. The bubble technology is attracting attention as a potential way to help alleviate depletion of global fish stocks and feed rapidly growing populations, especially in the semi-arid states where it is most applicable.

According to Mr Levy, the key component is the bio-filtration system, because the ponds do not have constant replenishment of water. The biofilter allows the ponds to retain the same water by using bacteria to degrade organic material produced by the fish.

grow to its full size of 500 grammes in one year. The entire system is automated, and a computer monitors everything from oxygen and pH levels to temperature and nutrition, adjusting the environment accordingly.

Mr Levy, who three years ago knew nothing about fish, is more optimistic. Standing outside one of his bubble ponds, he looks westward to the Egyptian border, a few hundred metres away. "The technique is simple," he says, squinting into the setting sun. "And what's the difference between the desert there and the desert here?"

Mr Julian Baring, a director of MWMF, is equally sanguine about gold. He says: "There is a reasonable chance that we shall see the gold price closer to \$500 (a troy ounce) than \$400 in the next few years."

MARKET REPORT White sugar steady after early plunge

The London Commodity Exchange's nearby white SUGAR contracts remained steady yesterday afternoon after falling dramatically earlier in the day. Traders said good support was found at the day's lows and the market helped by a more bullish tone

in the New York market. The May contract dropped \$10 to \$298 a tonne in the first 30 minutes of trading but traded back at the lows pushed value back above the psychologically-important \$400 level.

Short-covering and speculative buying on the New York raws market was said to have contributed to a steadier tone in London's afternoon trade. The London GOLD price was stuck in a narrow range but dealers said there was room for a dip below technical support at \$294 a troy ounce. Compiled from Reuters

COMMODITIES PRICES

BASE METALS

Table with columns for metal type (Aluminium, Copper, Lead, Zinc), price change, high, low, and open prices.

Precious Metals continued

Table for Gold COMEX and Silver COMEX prices, including price change, high, low, and open prices.

GRAINS AND OIL SEEDS

Table for Wheat and Soybean prices, including price change, high, low, and open prices.

SOFTS

Table for Cocoa and Coffee prices, including price change, high, low, and open prices.

MEAT AND LIVESTOCK

Table for Live Cattle and Pork Bellies prices, including price change, high, low, and open prices.

ENERGY

Table for Crude Oil NYMEX and Heating Oil NYMEX prices, including price change, high, low, and open prices.

NATURAL GAS NYMEX

Table for Natural Gas NYMEX prices, including price change, high, low, and open prices.

UNLEADED GASOLINE

Table for Unleaded Gasoline prices, including price change, high, low, and open prices.

FUTURES DATA

Table for Futures Data, including price change, high, low, and open prices for various contracts.

LONDON TRADED OPTIONS

Table for London Traded Options, including price change, high, low, and open prices for various options.

LONDON SPOT MARKETS

Table for London Spot Markets, including price change, high, low, and open prices for various spot markets.

PRECIOUS METALS

Table for Precious Metals, including price change, high, low, and open prices for Gold, Silver, and Platinum.

PLATINUM NYMEX

Table for Platinum NYMEX prices, including price change, high, low, and open prices.

UNLEADED GASOLINE

Table for Unleaded Gasoline prices, including price change, high, low, and open prices.

FUTURES DATA

Table for Futures Data, including price change, high, low, and open prices for various contracts.

LONDON TRADED OPTIONS

Table for London Traded Options, including price change, high, low, and open prices for various options.

LONDON SPOT MARKETS

Table for London Spot Markets, including price change, high, low, and open prices for various spot markets.

JOTTER PAD

A grid for a crossword puzzle.

CROSSWORD

No.9.040 Set by ADAMANT

A grid for a crossword puzzle.

CROSSWORD

- ACROSS
1 Half you climbs involved carrying an emblem (8)
2 Incline to order the vehicle outside (5)
3 Lose current name at centre of platform (8)
4 Refuse a stretcher (8)
5 Spoil period spent round island in the sea (8)
6 Get back, for example, into the shower (6)
7 Because of roadworks, is sent to detour? What ingenuitly! (10)
8 Having put it in the oven, the man got very excited (6)
9 Choose the French condiment (8)
10 As the loosen and break (6)
11 To restrict supplies to a student is sensible (8)
12 The groups set out after a month (6)
13 Knight, like a hundred others imprisoned, is feeling worse (8)
14 Misdemeanor, having taken the first steps back with due abandon (8)
15 Hold an alien in custody with computer technology (8)
16 Source of oil in troubled Middle East seas (6)
17 Poor in quality - only available silver (8)
18 ... but gold (not available, note) is rich looking (8)
19 Hint that I'd go in and make threatening gestures (10)

Solution 9.039

A grid for a crossword puzzle solution.

Skin cancer chaos

PHARMACEUTICALS BUSINESS NEWS

INTERNATIONAL CAPITAL MARKETS

European sector shrugs off weakness in US

By Samer Iskandar in London and Lisa Branstetter in New York
US Treasuries yesterday resumed their downward slide, but most European markets closed higher...

At the short end, the two-year note fell 1/8 to 100%, yielding 6.041 per cent. The June 30-year bond future slipped 1/8 to 109 1/8.

German bonds opened higher and traded up most of the day following the release of data showing that unemployment had increased by 27,000 in west Germany in March...

More worries about the inflationary pressures in the domestic economy caused US Treasury prices to give back all of Tuesday's gains in early trading yesterday.

Analysts at Deutsche Morgan Grenfell in Frankfurt argued that although bonds might continue to outperform the US market in the short term, they did not see chances of a real decoupling.

European high yielding markets, led by Italy, continued to outperform most other bonds. Jun futures contracts on Spanish bonds and Italian BTFS settled up 0.18 and 0.54, at 96.82 and 110.43 respectively.

Polish Brady bonds rally sharply on ratings upgrade

The Republic of Poland's outstanding dollar eurobonds and Brady bonds rallied sharply yesterday on the decision by Standard & Poor's, the rating agency, to lift the country's debt rating by two notches into investment-grade territory.

Treasuries, from around 115 basis points before the announcement, fell to 100 basis points by the end of the day. The \$250m issue was launched last June via J.P. Morgan at a spread of 185 basis points over US government bonds.

NEW INTERNATIONAL BOND ISSUES

Table with columns: Borrower, Amount, Coupon, Price, Maturity, Fees, Spread, Book-runner. Includes entries for US DOLLARS, D-MARKS, SWISS FRANC, ITALIAN LIRE, and EUROPEAN INVESTMENT BANKING.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Table with columns: Country, Coupon, Price, Yield, Week ago, Month ago. Lists prices for Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Portugal, Spain, UK, and US Treasury.

BOND FUTURES AND OPTIONS

EURO BOND FUTURES (MATRI) FF500,000

Table with columns: Month, Open, Settle, Change, High, Low, Est. vol, Open int. Lists data for Jun, Sep, Dec.

FT-ACTUARIES FIXED INTEREST INDICES

Table with columns: Price Index, LUK index, Apr 10, Apr 9, Apr 4, Apr 3, Apr 2, Yr ago, High, Low. Lists various fixed interest indices.

US INTEREST RATES

Table with columns: Rate, Bid, Offer, High, Low. Lists interest rates for Treasury Bills and Bonds, Prime Rate, and Fed Funds.

UK GILTS PRICES

Table with columns: Issue, Yield, Bid, Offer, High, Low. Lists prices for various UK Gilts.

GERMANY

Table with columns: Month, Open, Settle, Change, High, Low, Est. vol, Open int. Lists data for Jun, Sep.

OTHER FIXED INTEREST

Table with columns: Issue, Yield, Bid, Offer, High, Low. Lists various other fixed interest instruments.

FRANCE

Table with columns: Month, Open, Settle, Change, High, Low, Est. vol, Open int. Lists data for Jun, Sep, Dec.

ITALY

Table with columns: Month, Open, Settle, Change, High, Low, Est. vol, Open int. Lists data for Jun, Sep, Dec.

NET LONG TERM FRENCH BOND OPTIONS (MATRI)

Table with columns: Month, Open, Settle, Change, High, Low, Est. vol, Open int. Lists data for Jun, Sep, Dec.

NET LONG TERM ITALIAN BOND OPTIONS (LIFE)

Table with columns: Month, Open, Settle, Change, High, Low, Est. vol, Open int. Lists data for Jun, Sep, Dec.

NET LONG TERM JAPANESE GOVT. BOND FUTURES (LIFE)

Table with columns: Month, Open, Settle, Change, High, Low, Est. vol, Open int. Lists data for Jun, Sep, Dec.

NET LONG TERM SPANISH BOND FUTURES (MEDI)

Table with columns: Month, Open, Settle, Change, High, Low, Est. vol, Open int. Lists data for Jun, Sep, Dec.

FT/ISMA INTERNATIONAL BOND SERVICE

Table with columns: Issued, Bid, Offer, Chg, Yield. Lists various international bond issues.

NET LONG TERM GERMANY BOND FUTURES (LIFE)

Table with columns: Month, Open, Settle, Change, High, Low, Est. vol, Open int. Lists data for Jun, Sep, Dec.

NET LONG TERM UK GILT FUTURES (LIFE)

Table with columns: Month, Open, Settle, Change, High, Low, Est. vol, Open int. Lists data for Jun, Sep, Dec.

NET LONG TERM US TREASURY BOND FUTURES (CITI)

Table with columns: Month, Open, Settle, Change, High, Low, Est. vol, Open int. Lists data for Jun, Sep, Dec.

NET LONG TERM US TREASURY BOND FUTURES (MEDI)

Table with columns: Month, Open, Settle, Change, High, Low, Est. vol, Open int. Lists data for Jun, Sep, Dec.

Liffe launches trading in fungible euroyen contract

The launch today of trading in the euroyen contract at the London International Financial Futures and Options Exchange (Liffe) could strengthen the City's position as the international centre - outside Japan - of yen-denominated swaps and currency business.

Mr Philip Bruce, managing director of strategic business development at Liffe, predicted that demand for the contract would come from swaps and currency traders who bought and sold the contract in order to hedge their own exposures with other banks and commercial customers.

Some \$2,000m of yen interest swaps were outstanding at the end of 1994, with approximately 40 per cent of end-users located outside Asia, most of them in London.

The euroyen contract is fully "fungible", allowing dealers to transfer open positions between the two exchanges. Trading on the Liffe floor will take place between 9.00am and 4.00pm, resuming in Tokyo between 9.00am and 6.00pm Japanese time.

Open interest in the euroyen contract - currently amounting to 1,216,000 contracts - is to be transferred back and forth between Tokyo and London.

However, unlike the mutual offset system used in other international link-ups, clearing will take place only in Tokyo. Liffe members must sign a legal agreement - a "linked clearing agreement" - with a

GILT EDGED ACTIVITY INDICES

Table with columns: Gilt Edged Average, Apr 8, Apr 4, Apr 3, Apr 2, Apr 1. Lists activity indices for various gilts.

CONVERTIBLE BONDS

Table with columns: Issued, Bid, Offer, Chg, Yield. Lists various convertible bonds.

STRAIGHT BONDS

Table with columns: Issued, Bid, Offer, Chg, Yield. Lists various straight bonds.

COMMENTS

Comments on market activity and trends, including mentions of the dollar rally and market volatility.

Dollar rally

Handwritten text in Arabic script: "سوق المال"

سكوات الامم

LONDON SHARE SERVICE

21VY TRUSTS SPLIT CAPITAL - Cont.

Table listing 21VY trusts split capital with columns for company name, price, and other financial data.

LEISURE & HOTELS - Cont.

Table listing leisure and hotels companies with columns for company name, price, and other financial data.

OTHER FINANCIAL - Cont.

Table listing other financial companies with columns for company name, price, and other financial data.

PROPERTY - Cont.

Table listing property companies with columns for company name, price, and other financial data.

SUPPORT SERVICES - Cont.

Table listing support services companies with columns for company name, price, and other financial data.

AIM - Cont.

Table listing AIM companies with columns for company name, price, and other financial data.

OTHER INVESTMENT TRUSTS

Table listing other investment trusts with columns for company name, price, and other financial data.

LIFE ASSURANCE

Table listing life assurance companies with columns for company name, price, and other financial data.

PAPER, PACKAGING & PRINTING

Table listing paper, packaging & printing companies with columns for company name, price, and other financial data.

RETAILERS, FOOD

Table listing retailers, food companies with columns for company name, price, and other financial data.

TELECOMMUNICATIONS

Table listing telecommunications companies with columns for company name, price, and other financial data.

AMERICANS

Table listing American companies with columns for company name, price, and other financial data.

LEISURE & HOTELS

Table listing leisure and hotels companies with columns for company name, price, and other financial data.

OIL, INTEGRATED

Table listing oil, integrated companies with columns for company name, price, and other financial data.

PROPERTY

Table listing property companies with columns for company name, price, and other financial data.

SUPPORT SERVICES

Table listing support services companies with columns for company name, price, and other financial data.

WATER

Table listing water companies with columns for company name, price, and other financial data.

AIM

Table listing AIM companies with columns for company name, price, and other financial data.

YOU'D BE MUCH BETTER OFF IF WE PAID YOUR STAFF.

Your business is running a business. So the less precious time you spend worrying about your payroll the better. Hand the problem over to CMG...



Creating shared success.

PHARMACEUTICALS

Table listing pharmaceutical companies with columns for company name, price, and other financial data.

RETAILERS, GENERAL - Cont.

Table listing retailers, general companies with columns for company name, price, and other financial data.

TRANSPORT

Table listing transport companies with columns for company name, price, and other financial data.

CANADIANS

Table listing Canadian companies with columns for company name, price, and other financial data.

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Stock, a member of the Financial Times Group. Company classifications are based on those used for the FT-SE 100...

FT Free Annual Reports Service. You can obtain the current annual report of any company annotated with \$... FT Company Focus. Comprehensive 10-14 page report available on this company...

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HEALTH NEWS

monthly white...

FT MANAGED FUNDS SERVICE

FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Table listing Bermuda (SIB RECOGNISED) funds with columns for Name, Price, and % Change.

BERMUDA (REGULATED)**

Table listing Bermuda (REGULATED)** funds with columns for Name, Price, and % Change.

GUERNSEY (SIB RECOGNISED)

Table listing Guernsey (SIB RECOGNISED) funds with columns for Name, Price, and % Change.

GUERNSEY (REGULATED)**

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IRELAND (SIB RECOGNISED)

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ISLE OF MAN (SIB RECOGNISED)

Table listing Isle of Man (SIB RECOGNISED) funds with columns for Name, Price, and % Change.

ROYAL BANK OF CANADA (SIB RECOGNISED)

Table listing Royal Bank of Canada (SIB RECOGNISED) funds with columns for Name, Price, and % Change.

GUERNSEY (REGULATED)**

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IRELAND (SIB RECOGNISED)

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IRELAND (REGULATED)**

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ISLE OF MAN (SIB RECOGNISED)

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ISLE OF MAN (REGULATED)**

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ISLE OF MAN (SIB RECOGNISED)

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HENDERSON CROSSWELL INVESTMENT CO

Table listing Henderson Crosswell Investment Co funds with columns for Name, Price, and % Change.

IRELAND (SIB RECOGNISED)

Table listing Ireland (SIB RECOGNISED) funds with columns for Name, Price, and % Change.

IRELAND (REGULATED)**

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ISLE OF MAN (SIB RECOGNISED)

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ISLE OF MAN (REGULATED)**

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ISLE OF MAN (SIB RECOGNISED)

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ISLE OF MAN (REGULATED)**

Table listing Isle of Man (REGULATED)** funds with columns for Name, Price, and % Change.

DELTA EUROPE FUND MANAGERS

Table listing Delta Europe Fund Managers funds with columns for Name, Price, and % Change.

IRELAND (SIB RECOGNISED)

Table listing Ireland (SIB RECOGNISED) funds with columns for Name, Price, and % Change.

IRELAND (REGULATED)**

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ISLE OF MAN (SIB RECOGNISED)

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ISLE OF MAN (REGULATED)**

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ISLE OF MAN (SIB RECOGNISED)

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ISLE OF MAN (REGULATED)**

Table listing Isle of Man (REGULATED)** funds with columns for Name, Price, and % Change.

MERIDIAN FUND MANAGERS

Table listing Meridian Fund Managers funds with columns for Name, Price, and % Change.

ISLE OF MAN (REGULATED)**

Table listing Isle of Man (REGULATED)** funds with columns for Name, Price, and % Change.

JERSEY (SIB RECOGNISED)

Table listing Jersey (SIB RECOGNISED) funds with columns for Name, Price, and % Change.

JERSEY (REGULATED)**

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JERSEY (SIB RECOGNISED)

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JERSEY (REGULATED)**

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ISLE OF MAN (SIB RECOGNISED)

Table listing Isle of Man (SIB RECOGNISED) funds with columns for Name, Price, and % Change.

INVESTCO INTERNATIONAL LIMITED

Table listing Investco International Limited funds with columns for Name, Price, and % Change.

ISLE OF MAN (REGULATED)**

Table listing Isle of Man (REGULATED)** funds with columns for Name, Price, and % Change.

JERSEY (SIB RECOGNISED)

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ISLE OF MAN (SIB RECOGNISED)

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GUINNESS WRIGHT NATIONAL EQUITY

Table listing Guinness Wright National Equity funds with columns for Name, Price, and % Change.

ISLE OF MAN (REGULATED)**

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JERSEY (SIB RECOGNISED)

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ISLE OF MAN (SIB RECOGNISED)

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S-C BANKING LUXEMBOURG SA

Table listing S-C Banking Luxembourg SA funds with columns for Name, Price, and % Change.

ISLE OF MAN (REGULATED)**

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JERSEY (SIB RECOGNISED)

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FT MANAGED FUNDS SERVICE

FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 878 4378 for more details.

Main table containing various fund names, prices, and performance metrics. Includes sections for 'OTHER OFFSHORE FUNDS' and 'OFFSHORE INSURANCES'.

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EUTICAL NEWS

monthly state of...

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LONDON STOCK EXCHANGE

MARKET REPORT

Footsie falters within a few points of its peak

By Steve Thompson, UK Stock Market Editor

A positive early performance by gilts, renewed speculation across various sectors of the market, and talk of a substantial programme focused principally on the financial services, drove UK equities higher yesterday.

In the background, the latest Confederation of British Industry survey of distributive trades painted a relatively healthy picture of the UK retail scene.

And Tuesday's news that the Nationwide Building Society had taken a further step in increasing the pace of the mortgage price

war did no harm to sentiment. The news was interpreted by some in the market as possibly front-running another reduction in UK interest rates.

Wall Street's continuing uncertainty, which saw the Dow Jones Industrial Average lose some 120 points in two days after last week's US non-farm payroll report, was among the market's only real worries yesterday. The Dow came under renewed pressure yesterday, taking the top off London equities and introducing real concern about the market's ability to make any substantial further progress in the short term. The Dow fell away early on in the wake of US Treasury

bonds, which began to back off, taking gilts with them. Around 90 minutes after the close of trading in London the Dow was showing a marginal increase on the session.

Nevertheless, the impetus behind the London market for much of the day was such that the FT-SE 100 looked like taking a run at its all-time closing high and its intraday peak. At its best of the day, 3,775.1, shortly after midday, the FT-SE 100 was only 6.2 short of its previous closing peak and 17.4 away from its intra-day best, which it reached last month. Marketmakers said a substantial trading programme, heavily weighted on the buy side and said to have been executed by BZW, was a prime motivation behind the market's initial strong performance.

The Footsie ended the day a net 8.8 ahead at 3,767.4, while the FT-SE Mid 250 index, representing the market's second-line stocks, rose 10.0 to 4,387.1. There was good news for the City's big trading houses in the level of activity, which expanded rapidly from Tuesday's rather depressed level of 61m shares. At 6pm, turnover had reached 797.3m shares, with non-Footsie stocks accounting for just over half the total.

Around the various sectors, the banks caught the eye, mostly ignor-

ing the latest developments in the mortgage price war and responding instead to news of the merger discussions between C3 Holding and Union Bank of Switzerland.

Traders said a number of the two Swiss giants would lead to further consolidation in the UK banking arena. The two Scottish banks and Standard Chartered, long viewed as prima bid targets, were among the best performing Footsie stocks. BP and British Gas continued to attract exceptionally heavy trading activity, with both stocks closing well up on the session amid persistent speculation that the former could be running a slide rule over the latter.

executive chairman of Amer-sham helped shares in the medical diagnostics company climb 9 to 974p. Adre Printing improved 15 to 480p after a recent acquisition. And Bemrose advanced 26 to 409p in belated response to a recommendation by ABN Amro Hoare Govett.

Cortec International jumped 23 to 310p after releasing final results of the first Phase II clinical trial of its oral osteoporosis treatment. Headlam, the floor coverings and soft furnishings group, moved forward 15 to 248p on positive prospects.

MARKET REPORTERS: Peter John, Lisa Wood.

had a knock-on effect on a number of companies with UK hotel divisions, according to analysts.

Whitbread, which would be a major beneficiary, saw its share price go up 11 to 706p. Vaux rose 7 to 394p and Greenall 3 to 587p. Granada shed a penny to 793p.

In the drinks sector, Bass fell 7 to 789p on the back of profit-taking, as was the case with JD Wetherspoon, which retreated 17 to 907p. Grand Metropolitan moved up 4 to 426p, with the group gaining from reports of firmer spirits prices.

Building materials group Wolsley was the star Footsie performer with an advance of 15 to 454p. The company has been visiting analysts and giving some comfort over future prospects, following a disappointing interim figures a month ago.

Wolsley does about half its business in the US and has been easing worries about a cyclical downturn there, arguing that any weakness is merely the result of bad weather.

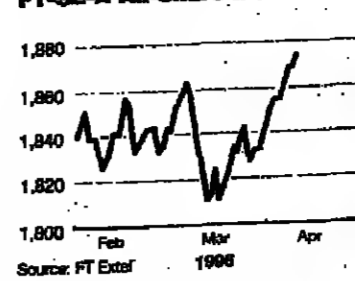
Enrolment units put on 2 at 70p to reflect a 7.5 per cent rise in the Paris-quoted shares. Dealers said one big US holder, Capital Group, had stopped selling its shares and there were reports of strong passenger figures for Easter.

Initial trading at Avocet Mining, the company which made its market debut last week, does not appear to be going to plan. Turnover has been niggardly and the shares, placed at 240p apiece, fell 14 to 213p yesterday.

F.I. Group, the computer services company, made a strong market debut yesterday. The shares started trading at 290p and finished the day 10 higher at 300p, a healthy premium to their 250p offer price.

Hope of great things when Mr Richard Laphorne, the finance director of British Aerospace, takes over as non-

FT-SE-A All-Share Index



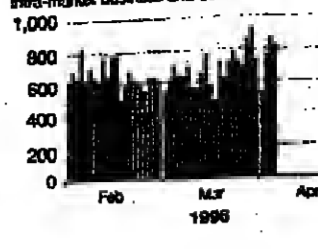
Source: FT Data

Indices and ratios table with columns for Index, Value, and Change. Includes FT-SE 100, FT-SE Mid 250, FT-SE-A 350, FT-SE-A All-Share, and FT-SE-A All-Share yield.

Best performing sectors table with columns for Sector, Change, and Value. Lists sectors like Building Materials, Pharmaceuticals, and Extractive Industries.

Equity shares traded

Turnover by volume (million). Excluding intra-market business and overseas turnover



Source: FT Data

FT Ordinary index table with columns for Index, Value, and Change. Includes FT Ordinary index, FT-100 Non-Fin p/e, FT-100 FT Jun, 10 yr Gilt yield, and Long gilt/yield ratio.

Worst performing sectors table with columns for Sector, Change, and Value. Lists sectors like Water, Electricity, and Pharmaceuticals.

Banks return to fore

Prospects of a merger between Switzerland's two largest financial institutions got the UK bank bid ball rolling yesterday.

It was largely a case of rounding up the usual suspects as Royal Bank of Scotland bounded towards the top end of the Footsie leaders, followed closely by Standard Chartered.

ROBS has been hard hit over the past couple of weeks with word leaking into the market that profits at the bank's Direct Line insurance subsidiary will be down.

But it has also been seen as a perennial bid target in spite of its stated desire for independence. The shares forged ahead 13 to 504p, while Standard, seen as an obvious morsel for HSBC, put on 13 at 650p.

Behind the takeover talk there was also a recommendation from James Capel, which reiterated its support for Standard, Barclays and Lloyds TSB. Barclays shares rose 9 to 733p and Lloyds 2 to 320p.

Cyclical shift The shift from defensive stocks to cyclical, which is beginning to bite in the US, was also starting to show itself in the UK stock market.

A Wall Street sell-off of pharmaceuticals left UK leaders Glaxo Wellcome and SmithKline Beecham. Glaxo

declined 10 to 789p, with some additional pressure from a story that Astra was cutting the price of Losec, which is the price of Astra's best-selling asthma product. It turned out that the cuts were only being made in Sweden and merely reflected European harmonisation rules. SmithKline "A" dipped 4 to 681p.

Zeneca was 2 firmer at 1401p with some help from confirmation that the E11 has approved the merger of Zeneca Seeds and Royal Vandeheer.

Meanwhile, ICI, generally regarded as being in the front rank of cyclical stocks, stood out with a jump of 14 to 912p.

Mirror speculation Mirror Group, which has lost out in the recent enthusiasm for media stocks, caught up with a rush on heavy speculative buying.

The shares shot forward 12 to 233p, with turnover hitting 13m as several dealers fingered Carlton Communications as an obvious suitor for the newspaper group.

There is logic behind the argument. Carlton would instantly get hold of 20 per cent of Scottish Television and 20 per cent of ITV, but Carlton has been steering analysts away from the idea and much will depend on PDM, the fund manager which owns nearly 20 per cent of Mirror Group. Carlton gained 6 at 482p.

Some water shares were restrained by the prospect of extra stock sloshing around the market.

SBC Warburg announced that it had taken up the rump of the government's remaining shareholding in six water com-

panies for around £77m. Warburg took on 3.5m shares in Thames Water, which fell 10 to 563p, 2.7m in United Utilities, down 5 to 585p, 2.8m in Anglian, 9 lower at 584p, 1.5m in Yorkshire, off 7 at 679p, 1.2m in Southern, 2 easier at 739p, and 0.9m in Hyder, 2 softer at 741p. The broker is expected to place the stock with institutions over the next few days.

Merchant bank Singer & Friedlander saw unusually heavy trade after two blocks of 2m shares were placed at 101 1/2p and 102p respectively. S&F firmed a penny to 103p.

Cadbury Schweppes rose in early trade on talk of broker upgrades by SBC Warburg and ABN Amro Hoare Govett. However, both brokers denied having changed their recommendations and the stock closed only a penny higher at 489p.

A Confederation of British Industry survey, published overnight, which hinted at a return of the "feel good" factor, coupled with cuts in mortgage lending rates, helped to give a shine to a number of retailers.

Among the main beneficiaries were MFI, which went up 5 to 171p, Kingfisher, 11 ahead at 582p, and Next, up 6 to 533p.

More evidence of consumers being keener to part with their cash came with the results from Headlam, the UK's largest distributor of carpets and curtains, which reported a 33 per cent increase in profits. Its share price rose 15 to 248p.

Among the smaller retailers, Moss Bros, the outfitters, made one of the day's biggest gains, up 36 to 795p, following its annual results which showed profits up by 52 per cent. Plans for continued expansion include a further 10 to 12 shops being scheduled to open later this year.

Granada's announcement that it was raising room rates

FINANCIAL TIMES EQUITY INDICES

Table showing Financial Times Equity Indices for various dates from Apr 10 to Apr 11, 1996. Columns include Index, Value, and Change.

Table showing Ordinary Shares, Dividend, and P/E ratios for various dates.

Table showing FT-SE AIM, FT-SE 100, and FT-SE Mid 250 indices.

Table showing London market data including Shares, Total, and Turnover.

Table showing 52 Week Highs and Lows, and Liffe Equity options.

Apr. 10 Data based on Equity shares listed on the London Stock Exchange.

LONDON RECENT ISSUES: EQUITIES

Table listing London recent issues in equities, including company names, prices, and changes.

FT GOLD MINES INDEX

Table showing FT Gold Mines Index for various dates and values.

FT - SE Actuaries Share Indices

Table showing FT - SE Actuaries Share Indices for various dates.

The UK Series

Table showing The UK Series for various dates and values.

LEGAL NOTICES

UNITED STATES BANKRUPTCY COURT FOR THE DISTRICT OF DELAWARE. Chapter 11. Case No. 96-35 (RJR).

Notice of Availability of Voting Packages and of Hearing to Consider Conversion of the Debtors' Securities.

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CONTRACTS & TENDERS

INVITATION FOR BIDS (IFB)

Date of Issuance of Invitation: 15th April 1996

Loan No. 3597

IFB No. 2649/VB/96

1. The Government of the Republic of Hungary has received a loan from the World Bank in various currencies towards the cost of Health Services and Management Project and it is intended that a part of the proceeds of this loan will be applied to eligible payments under the contract for Procurement of 12 (twelve) psi special respirators used after cardiovascular surgery.

2. The NOVO-TRADING Commercial Ltd., acting on behalf of the Ministry of Welfare now invites sealed bids from eligible Bidders for the supply of special respirators used after cardiovascular surgery and perform the related incidental services.

3. Interested eligible Bidders may obtain further information from and inspect the Bidding Documents at the office of: NOVO-TRADING Commercial Ltd., H-1136 Budapest, Hollan E. u. 24-26. Phone: (36-1)-153-0022 Fax: (36-1)-153-0005

4. A complete set of Bidding Documents may be purchased by an interested eligible Bidder on the submission of a written application to the above and upon payment of a non-refundable fee of USD 100.-(one hundred and twenty USD only) Bidders resident in Hungary may purchase the above documents upon payment of HUF 17,000.-(seventeen thousand HUF + VAT).

5. All bids must be accompanied by a security of USD 10,000.- and must be delivered to the above office on or before 11:00 am on the 15th July 1996.

6. Bids will be opened in the presence of Bidder's representatives who choose to attend at 11:00 am on the 15th July 1996 at the Conference Room of NOVO TRADING Commercial Ltd., H-1136 Budapest, Hollan E. u. 24-26.

7. Bidders are invited to visit the project site at the following address: ...

8. Bidders are invited to visit the project site at the following address: ...

9. Bidders are invited to visit the project site at the following address: ...

10. Bidders are invited to visit the project site at the following address: ...

11. Bidders are invited to visit the project site at the following address: ...

12. Bidders are invited to visit the project site at the following address: ...

SINO LAND COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

US\$210,000,000 5% Convertible Bonds due 2001 ("Bonds")

NOTICE TO BONDHOLDERS

The Directors of Sino Land Company Limited ("the Company") on 28 March 1996 declared an interim dividend of HK\$0.03 per share for the year ending 31 June 1996 to shareholders whose names appear on the register of members on 26 April 1996. This interim dividend is payable on 27 May 1996.

The register of members of the Company will be closed from 17 April 1996 to 26 April 1996 (both dates inclusive). Registered holders of existing Bonds who wish to exercise their conversion rights attaching to their Bonds to do so, as to be entitled to the said interim dividend should lodge the properly completed and signed conversion forms together with the Bond certificates with their Agent as to reach the Company before 4:00 p.m. (Hong Kong time) on 26 April 1996.

By Order of the Board Eric Ip Sai Kwong Secretary

Hoang Kwong

11 April 1996

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WORLD STOCK MARKETS

EUROPE

Table with columns for country, stock index, and price changes. Includes Austria (Apr 10 / Sto) and Germany (Apr 10 / Dax).

Table with columns for country, stock index, and price changes. Includes France (Apr 10 / Cax) and Italy (Apr 10 / Ita).

Table with columns for country, stock index, and price changes. Includes Netherlands (Apr 10 / Aex) and Spain (Apr 10 / Ibx).

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ASIA

Table with columns for country, stock index, and price changes. Includes Japan (Apr 10 / Nikkei) and Hong Kong (Apr 10 / Hang Seng).

Table with columns for country, stock index, and price changes. Includes South Korea (Apr 10 / KOSPI) and Taiwan (Apr 10 / TSE).

Table with columns for country, stock index, and price changes. Includes Thailand (Apr 10 / SET) and Singapore (Apr 10 / SSEC).

Table with columns for country, stock index, and price changes. Includes Malaysia (Apr 10 / FTSE) and Indonesia (Apr 10 / IHSG).

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INDICES

Table showing various stock indices and their values.

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Table showing US stock indices and their values.

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Table showing Asian stock indices and their values.

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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Main table of stock prices with columns for stock name, price, change, and volume. Includes sub-sections for various market indices and individual stocks.

Advertisement for Hewlett-Packard with the slogan 'Time waits for no one' and a URL 'http://www.hp.com/computing'.

Advertisement for AMEX COMPOSITE with a large stylized logo and the text 'Continued on next page'.

Handwritten Arabic text: 'سكوا من الاجل'

AMERICA US technology shares shake off worries

Technology shares managed to shake off a new sign of weak demand for semiconductors and post gains in midday trading while most other sectors were flat, writes Lisa Bransden in New York. At 1pm, the Dow Jones Industrial Average was up 5.75 at 5,566.19, while the Standard & Poor's 500 added 0.40 at 422.58 and the American Stock Exchange composite rose 0.56 to 573.37. NYSE volume was 210m shares. The Nasdaq composite climbed 7.49 points to 1,116.64 in spite of a drop in the semiconductor industry's key measure of demand, the Semiconductor Industry Association said that its book-to-bill ratio - the ratio of products billed to products shipped - fell for a fifth consecutive month to 0.8 in March. But while the figures are new, investors have been worried about declining semiconductor demand for several months, so much of that bad news had already been incorporated into the price of most semiconductor shares. Micron Technology, for example, has fallen from a peak of \$88 in September to \$22 1/2 at Tuesday's close. Yesterday the shares gained \$1 1/2, or 4 per cent to \$24 1/2. Motorola, which also makes chips, jumped \$4, or 6 per cent to \$57 1/2, after the company reported stronger than expected earnings of 63 cents a share. Analysts had forecast earnings closer to 59 cents a share. The company said, however, that slowing demand for semiconductors would be one factor that could put pressure on earnings over the next few quarters. Several computer companies were up yesterday. IBM added \$1 1/2 at \$119 1/2. Hewlett Packard was \$2 stronger at \$98 1/2 and Gateway 2000 hardened \$1, to \$33 1/2. Netscape Communications got a boost from news that it had formed a joint venture with GE Information Services - a unit of General Electric - to offer Internet software to businesses. In early trading, shares in Netscape were \$4 1/2 stronger at \$53 1/2, while Dell Computers - which had jumped more than \$5 in the previous two sessions - gave back \$ 1/2 at \$41. Shares in Bally Entertainment added \$ 1/2 at \$22 1/2 on continued hopes that the company might be acquired by ITT for as much as \$25 a share. First reports yesterday, however, suggested that negotiations between the two companies were foundering although they had not broken off altogether. ITT declined \$1 1/2 to \$80 1/2.

EUROPE Continent witnesses a flurry of records

Plenty of records were set in continental Europe yesterday, with FRANKFURT, for instance, lifted by dollar strength which brought the Dax index to an all-time high, gaining 26.76 or 1.1 per cent at 2,530.02. However, the market came off the boil later and the Dax session saw the index finish at 2,535.58. The strong dollar helped export-oriented stocks, particularly the car makers, such as Volkswagen, up DM9.80 to DM256.50, and Daimler-Benz, DM19.50 ahead at DM820, with respective closes in the Ibis of DM54.90 and DM817. PARIS moved higher during the day, although the CAC-40 index lost some of its early strength to close 12.23 ahead at 2,093.94. Turnover came in FFrs 2bn. Expectations that the Bank of France could trim interest rates at today's policy council meeting, and signs that the US was actively opposing any link. Eurotunnel was a significant feature as the stock rose for the second consecutive session in reaction to good March traffic figures for the shuttle vehicle service, and suggestions that there had been a good take-up of demand during the Easter holiday. The shares firmed 5 centimes to FFrs 50. Suez lost FFr2.60 to FFr214.40 after announcing 1996 figures broadly in line with consensus estimates. Analysts said, however, there had been disappointment that the group had not made an announcement regarding the possible sale of its Indosuez investment banking division. The stock had been supported in recent weeks on speculation that the bank might be sold. ZURICH saw scepticism overcome the enthusiasm that had greeted the speculation about a merger between CS Holding and UBS on Tuesday, and the shares of both suffered as investors turned their attention to SEC. Profit-taking left CS Holding SFr1.25 down at SFr113.75 and UBS SFr2.10 lower at SFr1,285 as analysts dismissed the likelihood of a merger in the near term, citing domestic anti-trust concerns, differences in corporate culture, and signs that UBS was actively opposing any link. SBC, by contrast, picked up SFr0.25 to SFr1.429 and Sandoz was SFr1.80 higher at SFr1.344, but Roche certified

FT-SE Actuaries Share Indices table with columns for Apr 10, Apr 9, Apr 4, Apr 3, Apr 2, Apr 1

346.67. Construction stocks gained ground on selective demand. Dragados rose Ptas to Ptas1,765, Cubiertas Ptas150 to Ptas350 and FCC Ptas100 to Ptas1,170. OSLO attained an all-time high in heavy trading as sentiment was encouraged by a rise in oil prices, a lower than expected March inflation figure and falling interest rates. The Total index saw a session's high of 785.95 before losing ground to close 9.23 up at 785.26. Kvaerner B climbed Nkr7 to Nkr227 after the group announced a new oilfield contract worth Nkr435m. Norsk Hydro, which said it was finalising plans to recover an additional 560m barrels of oil from the Troll field, put on Nkr5.50 at Nkr290. AMSTERDAM soared to a record high, the AEX index advancing past the 540 level, with steady conviction. The index rose 7.79 to 544.77. IN STOCKHOLM, Svedala dropped SKr10 to SKr210 as the Affarsvarlden index edged 0.9 higher to 1,864.2. Astra B fell SKr13 to SKr292 on news of cuts in some Lesc prices in Sweden, and poor sentiment towards pharmaceutical shares in the US. Written and edited by Michael Morgan and John Pitt

Rand leads S African stocks lower

Equities continued to retreat in nervous trade and finished near the session's lowest levels as the weak rand, which sank to fresh lows in the afternoon, upset sentiment. Dealers said shares were being marked down in thin dealings as many investors held back amid the uncertain outlook. The overall index closed 35.4 weaker at 6,653.9, industrials dropped 56.9 to 8,055.3 and the gold shares index slipped 10.1 to 1,774.8.

Canada

Toronto was firm in mid-session trade, led by strength in oil and major retailers. The TSE 300 composite index was standing 18.61 higher by noon at 5,023.90 in heavy volume of 64.5m shares. Toronto-Dominion Bank relinquished C\$1 at C\$23 1/2, heading the most active list after saying it would acquire Waterhouse Investor Services for C\$75m.

ASIA PACIFIC

Strong \$ propels Nikkei to four-year high

Profit-taking eroded early gains, but the rise in the dollar above the Y108 level encouraged buying by domestic institutions, lifting the Nikkei average to a four-year high, writes Emiko Terazono in Tokyo. The 225-share index added 47.53 to 21,791.70 after moving between 21,772.71 and 21,870.63. The closing level was the highest since February 10, 1992, when the Nikkei finished at 21,824.22. The dollar's rise above Y108 prompted buying in the futures market, which triggered active arbitrage purchasing. Domestic investors and foreign fund managers bought large-capital blue chips, while individual investors sought speculative shares. However, profit-taking depressed high-technology and semiconductor issues, while leading shipping companies were sold. Volume was 660m shares, against 613m. The Toxip index of all first section stocks rose 4.73 to 1,668.71 and the Nikkei 300 fund of 0.73 to 310.12. Caterers led losers by 624 to 446, with 159 issues unchanged. In London the ISE/Nikkei 50 Index put on 3.44 at 1,450.82. A fall in the book-to-bill ratio which measures the supply and demand balance of semiconductor in the US market depressed high-technology stocks. Microchip makers were weak, with NEC down Y10 to Y1,290 and Fujitsu losing Y10 to Y1,000. Advantest, a semiconductor equipment manufacturer, declined Y30 to Y5,000 and Tokyo Electron shed Y20 to Y3,840. Mining shares were higher on a recovery in gold futures prices. Domestic institutions and individual investors bought Sumitomo Metal Mining, which rose Y30 to Y1,070, and Dowa Mining, Y13 ahead at Y569. Higher crude oil prices encouraged buying of oil refiners. Arabian Oil climbed Y30 to Y5,060 and Teikoku Oil jumped Y23 to Y769. Large-capital steels and shipbuilders were bought by bro-

kerage dealers and institutional investors. Nippon Steel, the most active issue of the day, rose Y1 to Y372 and NKK gained Y2 at Y322. Speculative stocks were higher, with Shinko Electric appreciating Y10 to Y1,100, and Kanto Special Steel Y20 to Y900. In Osaka, the OSE average moved up 109.43 to 2,132.04 in volume of 63.7m shares. Roundup Hopes of an improvement in relations between Taiwan and China, now that both sides have expressed a willingness to resume talks, helped TAIPEI to a 10-month high. The market was also encouraged by the ratings that the Moody's Investors Service assigned to several big banks. The weighted index climbed 178.31 or 3.2 per cent to 5,789.03, and the financials sector jumped 6.5 per cent. Active buying intensified in late trade after Moody's said it had assigned long and short-term deposit ratings of A2 and Prime-1 to Taiwan's major state banks: First Commercial Bank, Hua Nan Commercial Bank and Chang Hwa Commercial Bank. KUALA LUMPUR picked up 1.6 per cent on steady buying of blue chips by local and foreign institutions, and the composite index closed 17.84 higher at 1,151.74. Telekom Malaysia led gains among the blue chips, ending 70 cents up at M\$23.50. Second board stocks continued to attract speculative interest, but construction issues closed off the day's highs after news that the Seventh Malaysia Plan would include construction projects worth M\$200bn had triggered early buying. SINGAPORE was spurred higher by bargain hunting in banks and properties and demand for Malaysian over the counter stocks as the Malaysian dollar firmed against the Singapore currency. The Straits Times Industrial index finished 7.85 firmer at 2,389.98. HONG KONG was weak for a third straight session and the Hang Seng index declined 29.82 to 11,077.55 in thin turnover of HK\$4.3bn. Brokers said the cash market's tone was kept soft for most of the day by a sharp fall in index futures in the morning, mainly because they had overshot in a short squeeze late on Tuesday. MANILA was lifted by hopes of good corporate earnings and continued encouragement from steady inflation data. The composite index moved ahead 31.63 or 1.1 per cent to close at 2,994.42. SYDNEY was dragged higher by technical factors which left the All Ordinaries index up 4.40 at 2,225.4. SHANGHAI's hard currency B index was propelled ahead by demand for Shanghai Yaohua Pilkington Glass. The index picked up 0.44 to 50.017 as Yaohua Pilkington rose \$0.050 or 5.5 per cent to \$0.950.

Mexico City up 1.4% at midday

Mexico City drove ahead in mid-session trading, with the IPC index of the 37 leading shares gaining 40.85 or 1.4 per cent at 3,050.54. Traders said that the market was supported by news of a smaller than expected fall in January industrial activity and a surprising burst of strength in the peso. Dealers said most investors were ignoring movements on Wall Street for the time being. The expectation of second-quarter recovery, good news from a smaller than expected fall in January industrial activity and a surprising

SAO PAULO

SAO PAULO was firmer at the opening and by midday the Bovespa index had risen 359 points to 48,924. Dealers said that investors were pleased that congress had finally approved the 1996 federal budget, and could concentrate on social security reforms.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Table with columns: Market, No. of stocks, Dollar terms (Apr 5 1996, % Change over week, % Change on Dec '95), Local currency terms (Apr 5 1996, % Change over week, % Change on Dec '95)

The first quarter of 1996 was good for the Latin American equity markets, notes ING Barings in its latest Latin American trading publication. Mr Tim Love says, "In the US short-term rates are casting a shadow over the region, while there is some evidence that the flow of mutual funds to the Latin American markets has begun to slow down after January's \$30bn and February's \$21bn. Nevertheless, Mr Love, who published his views prior to the release of the US March employment data and Wall Street's sharp fall on Monday, says that with a continuation of liquidity and some stability in US short rates, "Latin American markets can now concentrate on domestic fundamentals and valuations". ING Barings maintains a modest, long-term overweight position in Brazil, "despite the immense volatility risk from the legislative changes in this highly charged period. Over the quarter, Brazil has been one of the best performing markets in the region, and the most dangerous to underweight."

ASIA PACIFIC ACTUARIES WORLDWIDE INDICES

Table with columns: NATIONAL AND REGIONAL MARKETS, FT-SE Actuaries World Index, Local Currency Index, Dollar Index, etc.

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Handwritten Arabic text: "صكرا من الاموال"

RUSSIA

Campaigning for the middle ground

Chrystia Freeland assesses the conflicting forces and reputations at stake in an unprecedented electoral battle

On October 25, 1917, the day after the Bolsheviks seized power, share prices on the St Petersburg stock exchange held firm. Like rabbits caught in the headlights of history, most of Russia's aristocratic, multilingual, westernised elite could not quite believe that their country was in the grip of a revolution which would claim millions of human sacrifices and deform the lives of three generations.

Seven decades of brutal communist rule and the tumultuous political and economic upheavals of the past ten years have made Russia's new elite far less complacent. Just two months ahead of presidential elections which could return the communists to power, Russia is a country on tenterhooks.

Television anchormen and senior politicians casually predict that over the next few weeks there will be a coup in Moscow organised by President Boris Yeltsin's hardline cronies or a large terrorist attack within Russia launched by Chechen separatists. Equity prices are at a historic low, as the nouveaux riches keep their money in Swiss bank accounts as insurance against a possible communist revanche while red, Soviet-era, directors, emboldened by the shift in the political winds, ask sympathetic courts to re-nationalise their companies.

These jitters are provoked by the question which is looming over Russia today: will the communists win the June 15 presidential ballot? Although Mr Yeltsin has been steadily rising in the polls, the most recent survey showed that in a

two-man race 37 per cent of voters were prepared to support Mr Gennady Zyuganov, the Communist leader and candidate of a broad left-wing coalition, against 29 per cent who said they would back the incumbent.

Even senior officials in the Yeltsin administration admit that the historical pendulum is swinging against them. As the victory of former communists in elections across eastern Europe suggests, the transition to a market economy is a wrenching social process which leaves voters angry and nostalgic for the past even in countries where, at least on paper, the standard of living has risen. Moreover, in Russia the anti-reform reaction could be stronger than in eastern Europe, because so many Russians are poorer than they were in the dying days of communism. Poles elected a former communist president last year even after their reformers had delivered two years of the highest economic growth rates in Europe. By contrast, in Russia last year the economy continued to shrink and average incomes declined.

As Mr Nikolai Ryzhkov, former Soviet prime minister and a senior figure in the leftist bloc, argues: "The opposition's great advantage is that it is not responsible for what was done in the country over the past four or five years, but Yeltsin is. People's nostalgia is not for nothing and it is not only among the old. People say, yes, we were not rich, but we were not poor. People could live and eat and travel to visit their families."

The communists are powerful today because they have preserved a highly effective organisation which is able to channel this amorphous discontent into votes on election day. It was Lenin who first taught Russian communists the over-arching importance of a smoothly functioning party machine, and it is a lesson his

heirs have not forgotten. Paradoxically, the communists' muscular grass-roots organisation, built on the backs of thousands of Russian *babushkas*, means that, at least in opposition, the party which produced Stalin is today an avatar of democracy.

Mr Yeltsin's own law-enforcement agencies have caught over-zealous presidential backers within the government abusing their official posts to coerce state employees into signing pro-Yeltsin petitions. Other parties, too, have engaged in the (perfectly legal) practice of paying for signatures in an effort to collect the necessary one million. Only the communists, who have already established a network of election observers to guard against fraud on voting day, can afford to remain aloof from such practices.

But for all the communists' natural advantages of a deeply agreed populace and an efficient organisation able to transform this malaise into votes, Mr Yeltsin has been steadily gaining in the polls. If the current dynamic continues Mr Yeltsin, who enjoyed only half Mr Zyuganov's popularity in January, could be within 3 or 5 per cent of the Communist leader by voting day.

Many of the most popular explanations of Mr Yeltsin's apparent resurgence - and arguments for why he will win in June - are specious. One of the most common, especially within the corridors of the Kremlin, is that the president's control over government officials and company managers across the country will swing the elections in his favour.

But this conviction that the president's *nomenklatura* can deliver the vote ignores one of Mr Yeltsin's most important achievements - the creation of democracy in Russia. As the December parliamentary elections, in which communists triumphed over the pro-government party, showed, regional



The President's guard in the Kremlin: adjusting the ornate uniform of a past era in preparation for protecting the incumbent in years to come

governors and factory bosses can no longer control the voting of their residents or employees. Many of them may not even try; they were in power under the Soviet regime and they might be confident of keeping their jobs if the communists win.

Another frequent line of reasoning is that, on the fateful hour, Russians will vote for Mr Yeltsin because seventy years of communist dictatorship have bred a deep national aversion to a leftist revanche. But it stretches credibility to argue that Russia, homeland of the Bolsheviks, is today more anti-communist than Poland, which fiercely resisted communist rule five decades ago but elected a neo-communist president by a narrow margin last year.

Ironically, if Mr Yeltsin is re-elected in June it could be thanks to his communist credentials, rather than his democratic ones. Unlike the defeated reformers of eastern Europe,

who had been political dissidents in the Soviet era, Mr Yeltsin had been one of the world's highest-ranking communist leaders, a candidate member of the Politburo. The radical shift in eastern Europe, where former political prisoners took over the government, was far more gentle in Russia, where the old Soviet elite remained in place, but changed its ideological colours.

As Mr Kakha Bendukidze, a Russian entrepreneur, explains: "Yeltsin is really the leader of the social-democratic wing of the Communist Party of the Soviet Union. The other wing of the old communist party, all the tough Marxists, are today's Communist Party of the Russian Federation."

In many ways, the lack of a real alternative to the old communist rulers is Russia's tragedy. It accounts for Russia's failure to launch truly radical market reforms at the very outset, as Poland did with spectacular results, and for the

extremely corrupt character of Russia's "reformist" government.

But on election day, his communist credentials could set in Mr Yeltsin's favour. No matter what he does, the president can count on the liberal vote, which makes up some 20 per cent of the electorate; Russia's diehard democratic minority is likely to put aside its deep-seated disgust with Mr Yeltsin in a run off between him and Mr Zyuganov.

The real prize is the centrist majority, which is nostalgic for the security of the communist era but does not want a return of wild-eyed leftist revolutionaries. And unlike the bona fide democrats of eastern Europe, Mr Yeltsin and his ex-communist *apparatchiks* may be able to win over the Russian middle ground. Mr Yeltsin and his comrades are their country's natural party of power, and in the fight for Russia's conservative electorate they may ultimately seem more trustworthy

than the hardline rump of the old Soviet elite which went on to form today's Communist party.

In order to win the centrist vote, Mr Yeltsin and his supporters have mounted an all-out campaign to persuade Russian voters that Mr Zyuganov's party is dominated by hardcore leftists who will seek to expropriate private property, bring back wage and price controls and could even provoke a civil war if their leader is elected in June.

As Mr Anatoly Chubais, the architect of Russia's bold mass privatisation programme, argues: "This kind of policy (of the Communists) will lead to big bloodshed in Russia. Business leaders in the west who try to support Zyuganov will be responsible for the blood if he is elected president."

But the moderate wing of the Communist party, led by Mr Zyuganov, is anxious to make the opposite case. He

IN THIS SURVEY

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● **Economy:** 1995 was either a year in which the transition towards a market economy was made or one in which the opportunity was lost Page 3

● **Foreign policy:** Yevgeny Primakov, foreign minister and the former head of the KGB, has a forceful but subtle style boosting Russia's diplomacy Page 4

● **Military:** a peace plan has been unveiled to end the Vietnam-like war in Chechnya. The armed forces are weak but contain pockets of sophistication Page 5

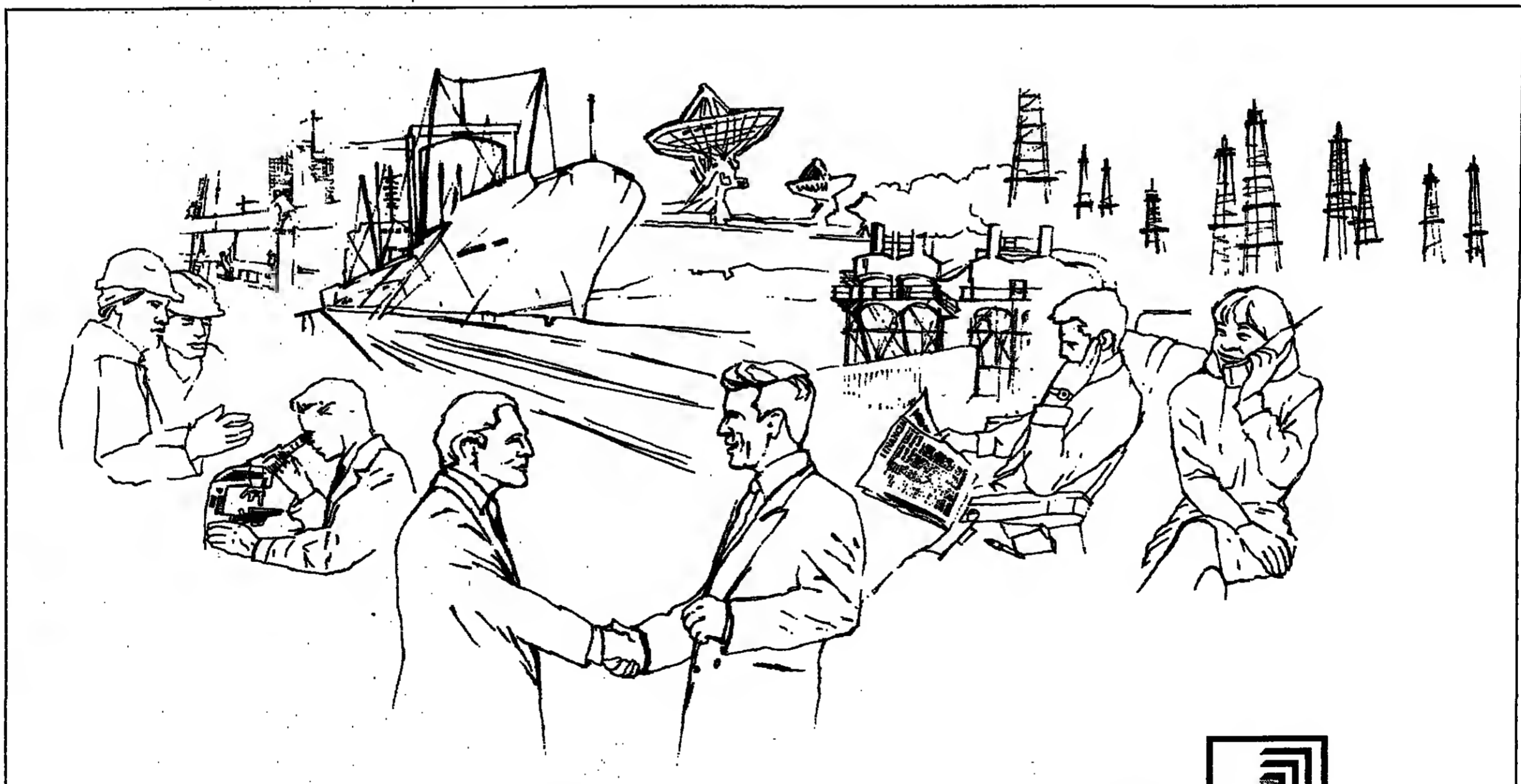
● **Banking:** the new generation of bankers could be poised on the brink of radical reform
● **Communists:** the possibility of their leader, Gennady Zyuganov, being elected president raises serious questions about Russia's future policies Page 5

● **Capital markets:** the authorities are striving to supervise a wave of extraordinary and wild expansion Page 7

● **Culture:** artists seek a new role
● **Agriculture:** it is better off down on the private rather than state-run farms
● **Moscow guide:** the well-heeled do not suffer discomfort Page 8

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● **The North:** this bleak region, remarkably rich in resources, still remains underdeveloped
● **Oil:** the future structure of this industry is uncertain Page 10



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IT TAKES TWO FOR BUSINESS.

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II RUSSIA

Politics by Christia Freeland

In search of the paragon

Democracy is an alien system in a country where civil war and revolution are institutions

In one of his increasingly frequent television appearances, Russian President Boris Yeltsin recently asked reporters to pass on a message to Mr Gennady Zyuganov, the communist leader who is his principle challenger ahead of June presidential elections: "Tell Zyuganov he still doesn't need an armoured personal car to come to work at the parliament."

Mr Yeltsin was joking, but his comment was a reminder that democracy is still an alien system in Russia, a country where civil war and revolution are venerable national institutions. The most telling sign of democracy's fragile roots in Russian soil is the extent to which, just two months ahead of the June 16 presidential ballot, many influential observers continue to wonder whether elections will take place at all.

The most recent scare - which prompted the president's reassuring message to his communist rival - followed the Russian parliament's controversial decision last month to annul the treaty which formally dissolved the Soviet Union. Two days after the vote Russian authorities, saying they feared a bomb had been planted in the parliament, set up police barricades around the building and barred members from entering.

Senior communists claim the

bizarre episode was part of a failed attempt by the hard-line faction in the Kremlin to persuade Mr Yeltsin to dismiss the legislature and call off the presidential ballot, using the treaty vote as a pretext. Mr Yeltsin fiercely rejected the allegations, but the entire incident served as a timely reminder of the volatile atmosphere in which sovereign Russia's first presidential elections are being held.

Even so, Mr Yeltsin's repeated and public pledges that the presidential vote will be held on schedule, together with intense pressure from the west to stick to the democratic timetable, have succeeded in convincing most observers that the elections are not likely to be called off.

But many analysts remain concerned that the government may try to manipulate unfairly the ballot. There are already abundant signs that Mr Yeltsin intends to throw the full



Gennady Zyuganov, leader of the communists and main opponent

weight of the Russian state behind his bid for re-election. Most of the leading figures in the government have openly joined Mr Yeltsin's campaign team, a combination of official and political duties which is ripe for abuse.

Freedom of the press and electronic media, one of Russia's most precious achievements since the collapse of communism, could also be in jeopardy. Russia's two state-owned television channels have reverted to the fawning pro-government stance of the Soviet era, only now it is communists not capitalists whom they vilify.

More worryingly, NTV, the independently owned television station which has bravely covered some of the Kremlin's biggest mistakes, such as the war in Chechnya, appears to be sliding over into the Yeltsin camp as well.

But in Russia's young democracy, using the govern-

ment bureaucracy and leaning on television bosses is seen as one of the inevitable, if undesirable, advantages of incumbency. The real test is whether the voting itself and the counting of the ballots will be free and fair. In this respect, many analysts fear that one of the most dangerous periods could be the gap between the first and second rounds of the voting.

According to Russian law, a candidate can be elected president on the first ballot only if he or she wins more than 50 per cent of the total votes cast.

Optimistic Communist party activists hope that Mr Zyuganov will squeeze through in the first round, but most independent pollsters and analysts predict that none of the contenders will garner the necessary outright majority. If that happens, the president will be elected in a second round of voting, a run-off between the top two candidates in the June 16 ballot.

Many observers fear that the most flagrant abuses could take place between the first and second ballots, particularly if Mr Zyuganov enjoys a strong lead going into the final round. One structural loophole which could invite foul play is the lack of fixed date on which the second round - if there is to be one - must be held.

Instead, Russian law only specifies that the Central Electoral Commission must publish the results of the first round within three weeks and that, in addition, the second ballot must be held no later than two weeks after that.

Conventional wisdom, and



President Boris Yeltsin pointing during one of his frequent pre-election television appearances to pass on a message to his challengers

most opinion polls, predict that no candidate will win in the first round, leading to a run-off between Mr Yeltsin and Mr Zyuganov. In anticipation of that confrontation, both men have begun moving into the middle ground, as they try to win over the broad swathe of centrist voters who will determine the outcome of the elections.

"You can see quite an interesting process," explains Mr Nikolai Ryzhkov, a former Soviet prime minister and a member of the broader leftist coalition supporting Mr Zyuganov. "Zyuganov will move from the left to the centre and Yeltsin will do the opposite and try to move from the right to the left."

The convergence - at least on a rhetorical level - has already been remarkable. Mr Anatoly Chubais, the architect of market reforms, was a hate figure for the communists; in January, Mr Yeltsin sacked him. The communists promise

to annul "illegal" privatisation; Mr Yeltsin's cabinet ministers have taken to making similar pledges and his courts are already reviewing the legality of many privatisations.

The communists have vowed to recreate the Soviet Union and, under their domination, the parliament has annulled the treaty which dismantled the USSR. Mr Yeltsin has created a new "union" with Belarus and promises to bring in other republics.

Some of Russia's most eminent reformers have stoically endured Mr Yeltsin's shift to the left. Their rationale was captured by Mr Chubais, who, despite his humiliating dismissal, is now turning his formidable organisational talents to the president's re-election bid.

"My logic is very simple," Mr Chubais explained. "My main goal is not to allow Zyuganov to become president of Russia and ... my understanding is that the only way to reach this

goal is to support Mr Yeltsin." But other prominent democrats are unconvinced. Although they share Mr Chubais's loathing of the communists, they argue that, because of his shift towards increasingly nationalistic and leftist policies, the incumbent can no longer be viewed as the reformist candidate.

Instead, a group of Russia's leading liberals, including a former Yeltsin cabinet minister, announced earlier this month that they would support Mr Grigory Yavlinsky, Russia's leading reformer outside the government. As a pragmatic rationale for their move, they cited polling results which show that, while Mr Yeltsin has higher overall ratings, Mr Yavlinsky stands a better chance of beating the communist candidate in a run-off.

Another dark horse is Mr Vladimir Zhirinovskiy, Russia's flamboyant ultra-nationalist. Although the extremist leader has been falling in the polls,

Cassandras have begun to point out that Mr Zhirinovskiy is perennially under-rated and warn that a Zyuganov-Zhirinovskiy face off in the second round remains a distinct possibility.

At the opposite end of the spectrum is Mr Mikhail Gorbachev, the former Soviet president, whose decision to run in June sparked a flutter of interest in the west, but has been almost completely ignored in Russia.

Most of Russia's disaffected voters would probably agree with the verdict of Mr Kakha Bendukidze, a Moscow entrepreneur. In Mr Bendukidze's view: "The ideal presidential candidate doesn't exist, he probably hasn't been born yet, or maybe he is just 15 years old. An ideal president for our country today would need to be as tough as Thatcher, as smart as Nixon, speak as well as Clinton, have the patience of the pope and know Russia like Solzhenitsyn."

Campaigning for the middle ground

Continued from Page 1
kicked off the charm offensive at the exclusive gathering of international business leaders in Davos this spring, presenting himself as a western European style social democrat, and, as proof of the compatibility of leftist governments and foreign investment, pointed out that China, still ruled by geriatric communists, has attracted almost ten times more foreign investment than Russia. Mr Zyuganov's party

has been equally assiduous at home and many prominent Russian entrepreneurs admit to contributing to Communist party coffers. This careful appeal to the business community has convinced some western and domestic observers that, after an initial period of uncertainty, the communists are likely to revert to a softer version of the current government's economic strategy. They argue that the growing influence of Russian financial

markets, the strict conditions attached to the \$10.2bn International Monetary Fund loan and the waxing power of private business in Russia will all rein in the wilder spirits within the communist coalition and push its leaders into following a centrist line if they come to power. But even the most optimistic observers say a communist victory would usher in a dangerous period of economic confusion, which could weaken Russia's fragile

market infrastructure and sabotage its hard-won financial stabilisation.

Sadly, many Russians are also convinced that even if Mr Yeltsin wins, a troubled future awaits their country. They fear that the president's re-election will more deeply entrench the ruling elite, which trades on its government connections to arrange profitable financial deals. Mr Yeltsin's new *nomenklatura* is particularly powerful in the

provinces where regional governors rule with all the autocratic vigour of feudal lords - or of communist party secretaries.

As Mr Sergei Kovalyev, the former dissident who resigned as human rights commissioner this spring, told Mr Yeltsin in an open letter: "You began your democratic career as an aggressive and energetic fighter against official lies and party dogmatism, but you are ending it as a docile instrument of the will of the cynical and power-hungry people who surround you. Today, you are promoting yourself as the only

alternative to Zyuganov and Zhirinovskiy. You shouldn't, because there are more similarities than difference between you and your rivals."

Disillusioned Russian democrats like Mr Kovalyev have a

Russians have not yet been offered a true alternative to the old communist elite

point. Unlike their eastern European neighbours, Russians have not yet been offered a true alternative to the old communist elite, but instead must choose between what amounts to two wings of the old *nomenklatura*. Yet the bleak perspective of Russia's instinctively gloomy intelligentsia risks obscuring the transformation which the country has undergone over the past decade. Thanks to the radical changes set in motion by Mikhail Gorbachev and kicked into high gear by Mr Yeltsin, Russia has begun a metamorphosis that neither

Mr Zyuganov's hardline comrades nor Mr Yeltsin's corrupt cronies can stop for long. No matter who they elect in June, Russia's voters will be part of a historic achievement. If the presidential elections are held freely and fairly, they will mark the first time that Russian voters are given the right to oust their national leader at the ballot box. After a millennium of autocracy, the emergence of democracy in Russia is a tremendous step forward, even if, in contrast with 1991, the political upheavals upset the St Petersburg stock exchange.

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ICFI

ICFI is one of Russia's top 10 banks in terms of assets. Most of its operations are conducted in hard currencies, which account for 80% of operations. Because of this exposure the Bank maintains one of the leading positions on the Moscow Interbank Currency Exchange (MIGEX) and the Russian International Currency and Stock Exchange. The Bank is an official dealer of the Central Bank of Russia in state short-term treasury bills (GKO) and Federal Loan Bonds. It is an active member of Russian Self-regulated Association for Professional Equities Traders, International Securities Market Association (ISMA) and Europay International. ICFI has been expanding credit and trading facilities with foreign banks. The international correspondent network now includes over 420 banks in 45 countries. This exclusive network has been especially helpful in the development of documentary operations. The Bank has also developed relationships and accounts with banks in the former Soviet republics. ICFI has enhanced its rouble operations carrying out rouble settlements with Russian banks and organisations, using innovative instruments for the domestic market such as letters of credit.

Increasing areas of activities

UNEXIM Bank and ICFI established the largest "Interros-Desostoinstvo" Pension Fund in Russia to develop a non-governmental pension system for the population at large. In 1995, branches were opened in several areas of the country in order to make the Fund available in the regions.

Interros Leasing Company was founded in November 1994 by the two Banks. The company is a member of the Russian Association of Leasing Companies and is a member of the European Association of Leasing Companies (Lease Europe). Interros Leasing Company was established to provide an alternative means to overcome the high cost of the modernising process in Russia. Leasing offers a tax-efficient method for industrial renovation, particularly for the extracting and processing industries.

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The two banks play major roles in the formulation and implementation of FIG's financial policies. The main task of Interros is to attract investment into the oil, petrochemical, chemical, metallurgical sectors and to assist its members in securing financial improvements as well as in modernising and restructuring each division.

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The economy: by John Thornhill

The illusion of a watershed

The public gets little sense of a 'feel-good' factor, seeing reforms only as incompetence

Future historians may record that 1995 was the watershed year in Russia's transition to a market economy in which inflation was finally tamed, public finances were strengthened, and industrial production began to revive after years of agonising contraction.

Then again, they may conclude the year was no more than an illusory ray of hope in Russia's "lost decade" as the Communist victory in the presidential elections in June 1996 sparked a new round of hyperinflation and chronic financial instability which took years to overcome.

Russia's past has continually been rewritten to reflect present realities. As one Soviet historian commented: "The trouble is you never know what's going to happen yesterday." Two very different - but perhaps equally valid - interpretations of Russia's economy are possible depending on what happens next.

There is no doubt that Russia took giant steps towards entrenching its nascent market economy in 1995. The achievements are simply stated, no matter how painfully won:

- A tight monetary squeeze cut the monthly rate of inflation from 17.8 per cent in January 1995 to 2.5 per cent by February 1996 - its lowest level since reforms began.
- The budget deficit was cut from 10.4 per cent of GDP in 1994 to 2.9 per cent in 1995 and

for the first time was financed almost entirely by non-inflationary means through the expansion of the government debt market and external credits.

- The collapse of industrial production finally appeared to bottom out, as real GDP fell by just 4 per cent in 1995, trade was further liberalised, and exports rose by 18 per cent to \$76bn.
- The value of the rouble was successfully defended through the introduction of a currency "corridor" as the central bank emerged as a responsible financial institution lifting foreign reserves to \$13.4bn by October 1995. In real terms, the rouble appreciated by 42 per cent last year.
- The International Monetary Fund, which helped devise the stabilisation programme, backed reform with a \$8.2bn stand-by loan in March 1995 followed by a further \$10.2bn three-year loan agreed last month.

As a result of these achievements, Russian politicians and western economists have been quick to declare victory in the war to turn Russia into a functioning market economy.

Last autumn, Mr Anatoly Chubais, the chief architect of Russia's stabilisation programme, publicly mused about Russia becoming a Slavic tiger economy recording annual growth rates of 10 per cent.

With similar optimism, Mr Anders Aslund, a former economic adviser to the Russian government, published an upbeat book explaining *How Russia Became a Market Economy*. And Mrs Brigitte Granville, a senior research fellow at the Royal Institute of Inter-

INDICATORS OF LIVING STANDARDS						
	1990	1991	1992	1993	1994	1995
Life expectancy at birth (years):						
Male	63.8	63.5	62.0	58.9	57.3*	58
Female	74.3	74.3	73.8	71.8	71.1*	72
Mortality (per 1,000)	11.2	11.4	12.2	14.5	15.7	NA
Infant mortality (per 1,000)	17.4	17.9	18.0	19.9	18.5	NA
Nutrition (daily calorie intake per head)	2,589	2,527	2,436	2,332	2,427*	2,310
% of consumer expenditure on food	36.1	36.4	47.1	48.3	48.8*	52
No of cars (per 1,000)	55.8	65.5	65.5	75.7	84.4*	NA
No of telephones (per 1,000)	158	184	167	172	176*	NA

national Affairs, followed with an unambiguously-titled tome: *The Success of Russian Economic Reform*.

But the average Russian worker, who last year endured a 13 per cent fall in real income, saw unemployment rise from 7.5 per cent to 8.2 per cent over the year, and frequently failed to receive their wages on time, tended to view things differently.

Industrial leaders also grumbled about sky-high interest rates, the corruption and criminality that seemingly encrusted the administration, and the continuing slump in domestic investment which has fallen from the equivalent of 20.6 per cent of GDP in 1990 to 15.1 per cent last year.

The public disillusion with the government's reform programme was further inflamed by last year's Byzantine "shares-for-loans" privatisation scheme, which transferred big shareholdings in some of the country's most valuable companies to a handful of well-connected banks at seemingly give-away prices.

"The absence of any appreciable economic 'feel-good' factor

for the mass of Russia's population and a sense of disgust about Moscow's maladministration were undoubtedly among the main reasons the electorate delivered a strong anti-government protest vote in the parliamentary vote in December.

"And, in that sense, Russian economic reforms may yet be judged to have failed in that they did not create a popular understanding of the logic and necessity of what needed to be done, discrediting the very concept of capitalism.

According to a recent study of the mass consciousness of the Russian population, sponsored by Germany's Friedrich Ebert Foundation, disaffection with the reform process has become fairly widespread with 43 per cent of Russians blaming their families' hardships directly on the government's economic policies.

"The greatest protest is evoked by the policy of privatisation, the growth of prices and the absence of state control over economic activities," the report stated. Such sentiments have not been lost on the Communist party, which



Anatoly Chubais: mused about Russia becoming a Slavic tiger economy

stresses the reversal of "criminal" privatisations, the re-imposition of some price controls, and a more interventionist state.

This year, Mr Yeltsin has put more emphasis on social concerns by launching an offensive to pay delayed wages while squeezing down inflation - the policy which most helps the poor.

But this initiative is being hampered by a shortage of money as the monthly budget deficit rose to 7.2 per cent in January.

While praising the Russian government for the overall success of its stabilisation programme, Mr Thomas Wolf, the head of the IMF's Moscow office, concedes that the "one very bad outcome" of last year was that budget revenues fell way below target.

"The result was that the Russian government had to cut back real expenditure by a sharp amount that had been anticipated," he says.

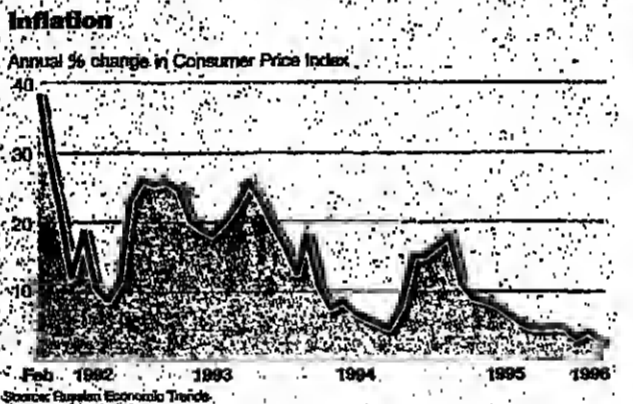
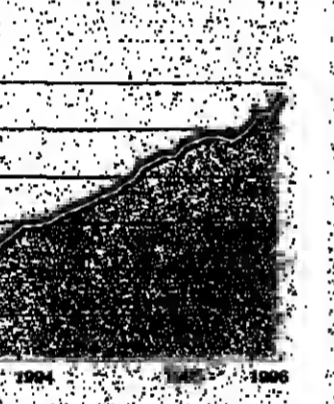
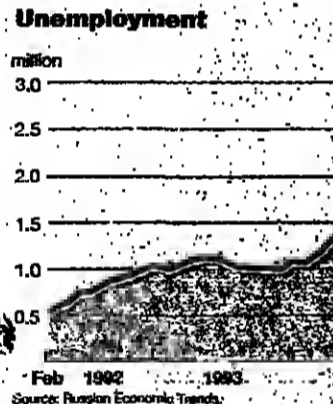
The government's difficulties in raising revenues mainly stem from the inconsistency of micro-economic reform. In particular, Russia's primitive and punitive tax code has led to mass avoidance and fails adequately to cover the emerging

KEY FACTS

Area	17,000,000 sq km
Population	148.2 million
Head of state	Boris Yeltsin
Average exchange rate	1995 \$1=Rb 4.559
	1996* \$1=Rb 4.735
Currency	Rouble

ECONOMY		1995	1996*
Total GDP (\$bn, ppp basis)		626.9	663.3
Real GDP growth (%)		-4.0	3.0
GDP per head (\$)		4,230	4,482
Annual average growth in:			
Consumer prices (%)		196	80
Real disposable income (%)		-13.4	NA
Industrial output (%)		-3.0	3.0
Agricultural output (%)		-8.0	1.0
Gross fixed investment (%)		-13.0	3.0
Unemployment rate (%)		8.2	9.5
Money growth (M2, %)		118.6	NA
Stk mt indc* (% change, pa)		-21.1	-6.5*
Budget balance (%GDP)		-5.0	-5.5
Total debt (\$bn)		104.2*	111.1*
Debt service ratio (%)		8.1	12.2
International reserves (\$bn)		10.9	NA
Current account balance (\$bn)		13.3	7.1
Merchandise Exports (\$bn)		64.3	64.5
Merchandise Imports (\$bn)		-41.6	-46.7
Trade balance (\$bn)		22.7	17.9
Main trading partners (1994)*		Exports	Imports
Eastern Europe		13.0	10.3
- Poland		1.8	2.6
Western Europe		35.8	21.4
- Germany		8.4	8.9
CIS		22.2	16.5
- Ukraine		10.5	7.1
US		5.9	3.3
Japan		3.5	2.9
China		4.5	2.5

(1) Estimate (2) Year to date (3) Estimate unless otherwise stated (4) Based on estimated purchasing power parity (5) End period (6) ROS index (7) End Nov (8) Share of world trade Source: Detstream, EIU, Central Bank, CS First Boston



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IV RUSSIA

PROFILE Yevgeny Primakov, foreign minister

A forceful but subtle style

The return to a dogmatic line feared by the west has not occurred

Rarely in modern diplomacy can the appointment of a new foreign minister have set off so many alarm bells. When Mr Yevgeny Primakov, a 66-year-old veteran of Soviet Middle Eastern policy and post-Soviet espionage, took charge of Moscow's foreign relations in January, US officials did not hide their consternation.

The new minister was denounced as an unreconstructed cold warrior, who had been too zealous by half in trying to head off international action against Iraq in 1991 and played a tough game as head of Russian foreign intelligence after 1992.

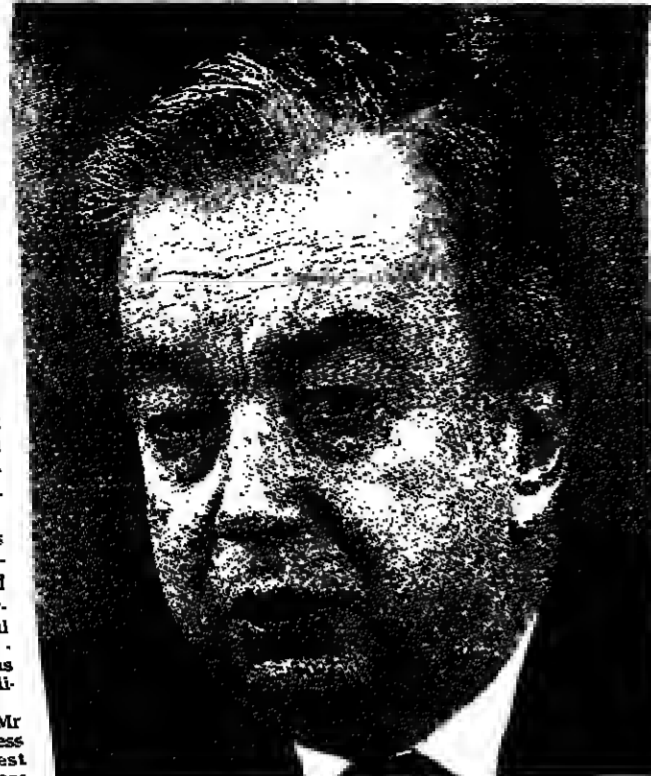
In practice, dealing with Mr Primakov has proved to be less terrifying than the West feared. As Russia's partners have discovered, there are advantages in talking to a man who enjoys high standing in the Kremlin and runs little risk of being branded as a western toady.

Precisely because he inspires such healthy disrespect in the capitalist world, the appointment of Mr Primakov was hailed across a broad spectrum of Russian opinion as a welcome contrast to the fawning pro-westernism of Mr Andrei Kozyrev.

With a forceful figure to charge, Russia's diplomats have a new spring in their step. And Mr Gennady Zyuganov, the communist leader, has hailed Mr Primakov's elevation as a rare display of sound judgment by President Boris Yeltsin.

With credentials like that, the arrival of Mr Primakov has destroyed any lingering traces of the glib optimism which marked Russian-western ties after the Soviet collapse. But his advent has not heralded a return to cold-war tension either.

Mr Primakov's style is more subtle. Instead of presenting



Primakov: inspires healthy disrespect in the capitalist world

other countries with a single, dogmatic line, he tries to influence them by hinting at a broad range of scenarios.

Under his guidance, Russia has brought undiminished energy, and somewhat greater dexterity, to one of its main foreign policy concerns: the campaign to stop, slow or water down the expansion eastwards of Nato.

While still saying that Russia would prefer Nato out to grow at all, Mr Primakov has sketched out some intermediate options - like the admission of ex-communist states to Nato's political wing, but not its military structure.

But his top priorities seem even closer to home. Instead of rushing to ingratiate himself in western capitals, he began his new job by visiting virtually all the ex-Soviet republics, and underlining Moscow's desire for closer relations.

Having grown up in Tbilisi and studied at the Moscow Institute of Oriental Studies, Mr Primakov has long-standing connections with many of

the leading politicians in the southern republics - and is therefore well qualified to woo or cajole them back into Moscow's sphere of influence.

The new minister has also masterminded Russia's admission to the Council of Europe - by making it plain that Moscow would take it very per-

sonally if its actions in Chechnya were viewed as an insuperable obstacle.

As intelligence chief, Mr Primakov used to say that Moscow aimed above all to stop the emergence of a "unipolar" world: in other words, preventing the US from using the Soviet Union's collapse to dominate the international order.

Taken literally, this seemed to be a warning that Russia would look for every opportunity to counter-balance US influence: by exploiting transatlantic splits, preserving old ties with India, selling arms and technology to China and Iran, and reviving its links with pariahs like Iraq and Libya.

Mr Primakov may still be tempted by such a policy: most of Russia's foreign policy makers are. But he is also too sophisticated not to realise that a headlong rush into confrontation with the West would simply backfire.

Without doing anyone gratuitous favours, Mr Primakov has so far been careful to preserve the foundations of the Russian-western relationship: an understanding that both sides have an interest in co-managing the legacy of the cold war.

In practical terms, this means urging the Duma (unsuccessfully, so far) to ratify the Start-2 accord on



cutting long-range nuclear arsenals, so long as the US does not abandon the ABM treaty which limits anti-missile defences.

Furthermore, it implies working with Washington to secure the widest possible acceptance of a comprehensive test ban treaty, talking business with the West over nuclear safety, and entering

joint arrangements to handle the deadly nuclear material that is piling up as warheads are dismantled.

Mr Primakov's hands are also tied by political factors. He has been a faithful servant to successive masters of the Kremlin - from Leonid Brezhnev to Mikhail Gorbachev - and he seems loyal to President Boris

Yeltsin, who is vested by the constitution with setting the compass in foreign policy.

Serving Mr Yeltsin means avoiding any action which would wreck the relationship between the Russian leader and US President Bill Clinton. It is, after all, a relationship in which both leaders have invested their political capital.

So far at least, this has meant that Russia avoids any action that would hopelessly undermine Mr Clinton's claim to have made the world a safer place, through careful handling of Moscow.

Mr Clinton, for his part, has consistently backed Mr Yeltsin against his internal adversaries. Preserving the Yeltsin-Clinton axis has required both sides to limit the scope of some potentially serious clashes: over Chechnya, the transport of Caspian Sea oil and over Russia's supply of nuclear technology to Iran and Cuba.

But a change at the top in either Washington or Moscow could bring these differences out into the open. If that happens, Mr Primakov will no doubt adapt speedily to a more adversarial spirit in Russian-western relations.

He would heartily agree with Senator Bob Dole's assertion that "US geopolitical rivalry with Russia did not end with the demise of Soviet Communism."



Egyptian forces clash with Iraqis during the Gulf war; Primakov was zealous in trying to head off international action against Iraq in 1991

Picture: Reuters

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Chechnya: by Christia Freeland

The makings of a Vietnam

On top of the painful political impact, the conflict has strained the fragile economy

When President Boris Yeltsin launched the Chechen war in December 1994, he and his entourage envisioned it as a sort of Russian version of Britain's triumphal defence of the Falkland Islands. The operation in Chechnya, which General Pavel Grachev, the minister of defence, promised would be wrapped up in 48 hours, was to be a small, swift and popular war which would boost Mr Yeltsin's flagging public ratings.

More than a year later, the Chechen conflict is looking more and more like Mr Yeltsin's Vietnam: a protracted, messy fight against deeply entrenched partisan forces which could prove fatal to the president's hopes for re-election.

Although most Russians have little sympathy for the Chechen separatists, television footage of the war serves as a nightly reminder of the incompetence and brutality of Mr Yeltsin's administration.

With opinion polls suggesting that the Chechen war, which has already claimed at least 30,000 lives, is a significant factor in voters' attitudes to Mr Yeltsin, one of the Kremlin's top political priorities has become to find some kind of first aid solution for the conflict ahead of the June 16 presidential poll.

The Kremlin's boldest and most public effort to end the war is the peace plan unveiled with great fanfare by Mr Yeltsin at the end of March.

Appearing on national television, Mr Yeltsin promised an immediate, unilateral ceasefire and said that Russian troops would gradually be pulled back to Chechnya's borders. The Russian president also pledged to hold democratic elections for a local legislature, said he would ask the Russian parliament to consider an amnesty for Chechen fighters and offered to enter into negotiations with Mr Dzhokhar Dudayev, the Chechen separatist leader.

Some western governments,

which are keen to see Mr Yeltsin triumph over his communist rival in the June ballot, hailed the proposal as a breakthrough and the White House went so far as to urge the Chechens to lay down their arms and sit down at the bargaining table with the Kremlin.

But in Moscow and in Chechnya, the plan has received a chilly reception.

Politicians and analysts point out that the plan is largely a reiteration of policies Russia had already been pursuing with no notable success.

They have described Mr Yeltsin's initiative as a pre-election ploy which has little chance of breaking the bloody stalemate in the north Caucasus.

Mr Yeltsin's plan has also failed to remove what specialists say is the biggest stumbling block to a peaceful settlement: Russia's fundamental misunderstanding of the nature of the conflict in Chechnya.

From the very outset, the Russian government has described Mr Dzhokhar

Dudayev, the Chechen separatist leader, as a "bandit" whose criminal gang would be ousted by a "police operation."

Mr Yeltsin's much-hailed peace plan seems to have done little to alter this perception: less than 24 hours after the president announced his plan, Gen Vyacheslav Tikhomirov, the commander of Russian forces in Chechnya, insisted that his soldiers would continue to "disarm unlawful gangs," the Orwellian term Moscow has used all along to describe the entire 15-month war.

But, notwithstanding the Kremlin's wishful thinking, Mr Dudayev is the leader of an independence movement which enjoys overwhelming support from the local population. The brutality of Moscow's attack on Chechnya - at the height of the Russian bombardment more bombs were dropped on Grozny, the Chechen capital, every hour than were dropped

in Sarajevo per week during the most intensive fighting in Bosnia - has paradoxically

strengthened the popular determination to resist Russian rule.

"It seems to me that the top brass completely fails to understand what sort of war is being fought in Chechnya," says Mr Alexander Iskandarian, the co-director of the Centre for North Caucasian Studies in Moscow. "But this is war of a different sort. It is almost a classic guerrilla war."

As a result, Russia's political and military gains in Chechnya are quickly dissolved in the quicksand of popular support for the separatist cause. Russian generals say that the number of Chechen rebels steadily increases whenever Russian forces enter a region as the local men leave their day jobs and take up arms.

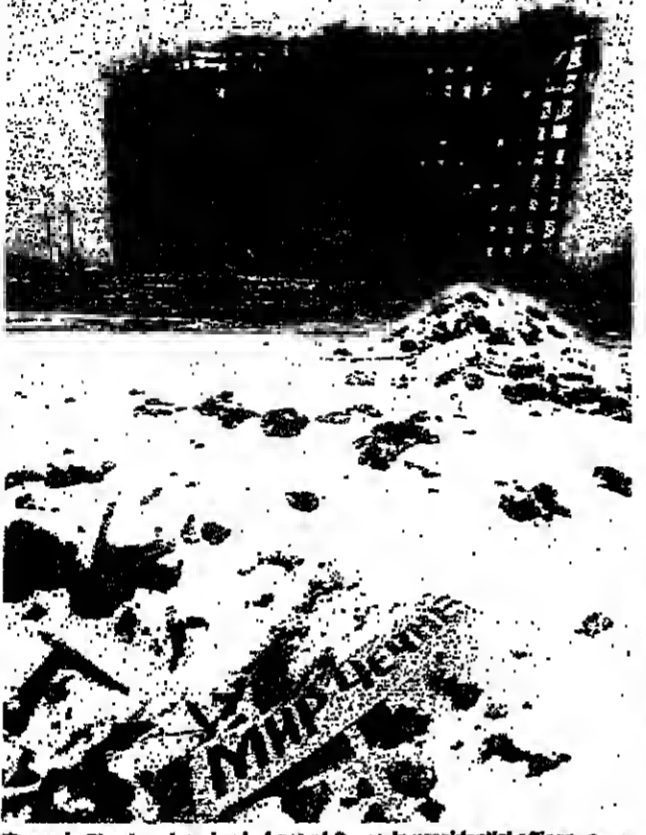
Even the Russian-sponsored local Chechen police force is reportedly full of Dudayev supporters who need the income of a government job.

If Chechnya is unlikely to yield Mr Yeltsin the pre-election gift of a peace settlement, it could produce a politically disastrous upsurge of fighting on the eve of the presidential poll.

Mr Dudayev views the Russian leader as the criminal author of a "genocide" against the Chechen people and, in a recent interview, he said that he would welcome Mr Yeltsin's defeat at the ballot box.

On top of its painful political repercussions, the Chechen conflict has strained Russia's already fragile economy. Mr Vladimir Panskov, the minister of finance, says that the \$500,000bn spent to date on the Chechen war is one of the chief causes of the massive wage arrears which have contributed to Mr Yeltsin's political woes.

As for the Chechens, who fiercely resisted Tsarist armies in the 19th century and endured deportation at the hands of Joseph Stalin, they seem determined to fight off the newest incursion by Russian troops, no matter what the cost. As Mr Dudayev said recently: "We are much more interested in continuing the war than Russia, because what is left for us? A destroyed economy, no industry, no production. People are left without a roof over their heads, without bread, without jobs."



Peace in Chechnya? A sign in front of Grozny's presidential offices

The military: by Bruce Clark

Neither weak nor strong

Political parties scramble to recruit well-known generals in a show of nostalgia for military strength

In theory, almost everybody in Russia wants a mighty defence force. In practice, most parts of the former superpower's military machine look lamentably weak, and in danger of getting weaker.

Bestions of competence - including the paratroopers, the marines and strategic rocket forces - still exist, but the majority of Russia's 2m or more servicemen are struggling to survive in a world of brutality, cynicism and decline.

Industry units operate with barely 40 per cent of their authorised manpower; many garrisons are short of fuel, spare parts and food; and the atmosphere of hunger and poverty has exacerbated the perennial problem of crime and bullying.

Mr Alexander Zhilin, defence correspondent of the weekly Moscow News, recently painted a horrific picture of conditions among the Russian troops who for the last 15 months have been fighting in Chechnya.

"Alcohol or drug-induced intoxication is the standard state for Russian servicemen," he wrote.

"For every man who dies at the hands of the Chechen rebels, there are five who die through negligence or fights between servicemen."

As the authorities intensify their efforts to enforce conscription, the ingenuity of draft-dodgers - and of their mothers, a vocal anti-war lobby - increases in response.

This makes it hard to guess the exact size of Russia's forces.

One British expert, Mr Mark Galeotti, estimates the defence ministry's forces at between 1.6m and 1.7m, while other military units, including 200,000 border guards and 270,000 internal peace-keepers, may

total about 700,000.

Like most western commentators, he believes the decline of the Russian military has some way to go.

Yet the nation's continuing nostalgia for military strength is highlighted by the way in which political parties of every hue scramble to recruit well-known generals.

Heroes as well as villains have been created by the war in Chechnya, which was waged with unrelenting brutality in the weeks leading up to President Boris Yeltsin's announcement.

Commanders have no choice but to go commercial themselves

ment on March 31 of a halt to large-scale operations.

General Lev Rokhlin, who reversed the army's early disasters in Chechnya and captured the half-ruined city of Grozny, has become an influential parliamentarian and an eloquent critic of military incompetence.

While he supports prime minister Victor Chernomyrdin, old war horses like General Valentin Varennikov, the former Soviet land forces commander, have given their backing to Mr Gennady Zyuganov, the communist leader who says "the army is the core of state."

The best-known soldier-politician, General Alexander Lebed, has not succeeded in fulfilling his hopes of a rapid ascent. Nevertheless, the busy paratrooper, who made his name in Afghanistan and Moldova but despises the war in Chechnya, is still being courted energetically by civilian power-brokers.

With political support in so many quarters, it may seem curious that the military remains in such a dreadful state.

But the old system - in which the armed forces simply requisitioned the cream of Rus-



Mock combat for Russian paratroopers in Moscow during Paratrooper Day last August, to mark the 65th anniversary of the unit

sia's human and material resources - is taking a long time to die, and the supposed new system, in which the military makes efficient use of a finite quantity of funds, has yet to work properly.

The agencies that supply the forces with transport, electricity and food no longer do so out of patriotic duty; they charge stiff commercial prices, and they are liable to suspend their services unless they are paid.

Last autumn, for example, a nuclear submarine base in the Arctic found itself in the dark - until, that is, the commander sent troops round to the local power station, and Mr Yeltsin ordered electricity companies to maintain supplies to the military.

In this harsh new world, commanders have no choice but to go commercial themselves - by renting out firing-ranges to private firms, moonlighting as bodyguards themselves or even hiring out their equipment to curious western tourists.

Restoring the army's ability to cope with more serious tasks is an uphill battle for General Mikhail Kolesnikov, and confirms the adage that Russia is never as strong or as weak as she looks.

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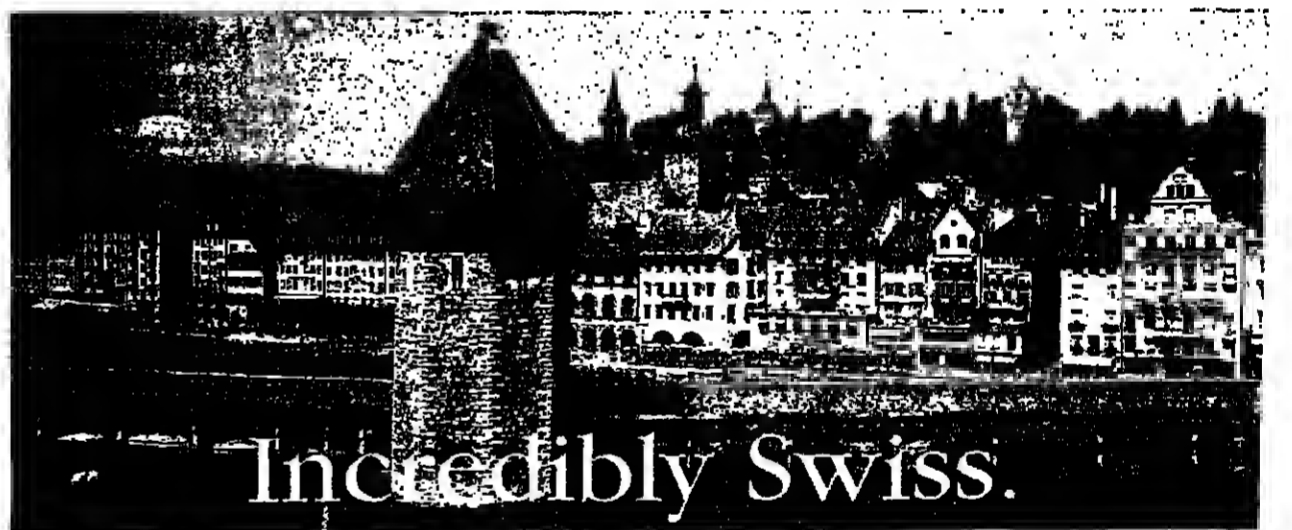
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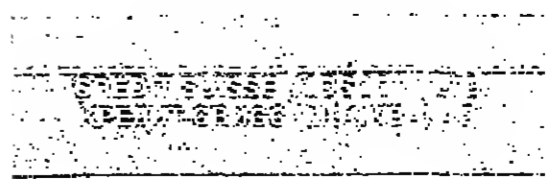
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VI RUSSIA

Banking: by John Thornhill

On the edge of instability

The signs are that banks are starting to mature and move into more traditional activities

Russia's new generation of entrepreneurial bankers has few doubts that the country's banking system is on the brink of wrenching and radical change.

But how successfully Russia's central bank will manage that process of change will play a large part in determining the stability of the financial system in the immediate future and the shape of Russian capitalism for decades to come.

"Sick banks, banks that do not fulfil the rules, banks that have constant problems with their accounts and payments and settlements - these banks either must regain their health or be liquidated," says the tough-talking Mr Sergei Dubinin, head of the Central Bank, forecasting a radical shake-out among the country's 2,500 officially-registered banks.

Russia's commercial banking sector was created from scratch in the late-1980s and has since expanded at such a ferocious rate that large parts of it are over-extended and under-capitalised. Nascent bankers, from varied backgrounds, emerged in the dying days of the Soviet Union to found financial institutions which dabbled in a whole array of activities. Few of them, however, bear much relation to standard banking operations anywhere else.

Banks were able to make easy money taking cheap credit from the central bank and passing them on to industrial enterprises, financing imports, and speculating on the currency market where the rouble appeared to be in never-ending decline against the US dollar. Latterly, the banks have succumbed to the government bond (GKO) market where annualised yields remain above 100 per cent.



Sergei Dubinin: 'Sick banks... must regain their health or be liquidated'

The high inflationary environment, which whittled away the real value of bad loans, also provided an extra comfort factor for the banks protecting them from inevitable mistakes born of inexperience, over-ambition, and the wild business climate where crime is rife and "Judge Kalashnikov" has proved the only truly effective means of recovering debts.

A European Union-sponsored study of Russia's banking sector estimated that the security arm of most medium-sized banks formed about 25 per cent of their total staff. But the government's successful attempts to stabilise the economy in 1995 have made the business climate much tougher - as has been the case in all other transition economies. The rouble has traded within a narrow corridor ending speculative foreign exchange profits.

Inflation has tumbled to a monthly rate of 2.8 per cent in

February imposing harsher disciplines on cash management. And yields in the Treasury bill market have been dropping as foreign investors have gained limited access to the market.

A temporary paralysis of the inter-bank lending market last autumn was the first sign that stabilisation was beginning to hit the banking sector. The central bank was forced to inject short term funds into the market to preserve the liquidity of the entire sector.

Under-capitalised banks are now beginning to fail while two of Russia's largest, Avto-vaibank and Natsionalnyi Kredit, are on the brink of bankruptcy and are being protected from their creditors by the central bank.

"We are going to see the number of banks decline dramatically over the next 12 to 24 months after which stability will return to the banking sector," says Mr Jim Kilzer, head of banking services at Price Waterhouse, the international consulting firm. "The smaller banks will simply be washed out of the system because they cannot find enough capital."

The central bank is trying to encourage mergers among the smaller banks by raising reserve requirements and shepherding weaker participants together. In an attempt to raise the reputation of Russia's banking sector, the central bank also stripped 315 banks of

their licences last year.

But the central bank faces an extraordinarily difficult task in weeding out the weak from the strong. Banks' reporting standards are lax, regulators inexperienced, and the economic conditions still unpredictable. Auditors estimate that about 30 per cent of all bank loans are non-recoverable and the incestuous links between many banks' shareholders and customers make it near-impossible to distinguish between the health of a bank and its related enterprises.

"The central bank is a neophyte regulator with an extremely high learning curve operating in a wild and unpredictable market," says one banker.

But there are many signs that some banks are beginning to mature and move into more traditional banking activities which should result in the creation of more solid financial institutions and a more responsible banking sector.

Stolichnyi Bank, for example, is intent on setting up a retail branch network and will specialise in attracting domestic savings to compete with Sberbank, the conservative state savings bank which dominates the market.

Other banks, linked to investment funds, seem set to launch mutual funds and offer insurance services while a few are beginning to invest in property, which is used as collateral for many banking transactions in developed countries.

More Russian banks now seem willing to lend to the industrial sector and several participated in the government's controversial "shares-for-loans" privatisation scheme last year.

Banks, such as Menatep and Inkombank, ended up with large shareholdings in some of the country's most prized industrial assets. The banks shake up these companies' managements, introduce much-needed financial skills, and help raise investment capital - much as old-style British merchant banks used to do.

But all these activities require new banking skills and different frames of mind. As yet, most banks have little ability to analyse financial statements, price risk, or make long-term investment calculations. So far, Russia's bankers have shown astonishing entrepreneurial dynamism and flexibility. But their real work is only just beginning.

Communists: by John Thornhill

Fears of national socialism

If Zyuganov sees the economy as the first test, moderation might prevail

Some Russian politicians fear a communist victory in June's presidential election would inevitably lead to financial collapse and bloodshed as an economically-ignorant and politically-venal administration destroyed the foundations of a property-owning democracy.

Speaking of his former comrades, Mr Mikhail Gorbachev, the last president of the Soviet Union, says: "Knowing these people and the nature of the nomenklatura, I am afraid that, having gained all power, they will stop reform, take the democratic freedoms away from society and deliberately or thoughtlessly pave the way to national-socialism in Russia."

Less alarmist observers predict Russia's new-born democracy and market economy would restrain any revanchist impulses and force Mr Genady Zyuganov, the communist leader, to adopt moderate policies in office - much as France's President Francois Mitterrand was compelled to abandon socialism and chant a monetarist mantra in the early 1980s.

"Like all politicians in the last decade of the twentieth century, he [Zyuganov] will also have to face the power of the financial markets, which will quickly bring him face-to-face with economic reality," argues a research report from Morgan Stanley, the US investment bank.

For his part, Mr Zyuganov promises he would lead a benign, forward-looking administration, respecting the concepts of a mixed economy and a pluralistic democracy but cracking down on corruption and placing greater emphasis on social justice.

It is impossible to predict which of these three scenarios would unfold in the event of a Zyuganov victory. But it would be foolish to dismiss any of them as a possibility. It is no longer clear what communism means in modern Russia nor where the limits of the politically-possible lie in such a fragile, half-formed market democracy.

Perhaps the most serious statement of Mr Zyuganov's political intentions came in a speech he delivered last month to his core supporters after being nominated the Communist party's presidential candidate. In a discursive address, Mr Zyuganov made no mention of Marx, Lenin, or Stalin and barely referred to the experience of the Soviet Union.

Instead, he constantly stressed the themes of Russian nationalism and social justice referring to communism more as a philosophical ideal than a creed for action. "I am a Russian by blood and in spirit and I love my Motherland. I entered the party believing that the communist ideas, which has existed for more



Grigory Yavlinsky: leader of the Liberal Yabloko movement



Gen Varennikov: supporter of the hardline Communist coup in 1991

than two thousand years, most deeply reflects people's needs and aspirations. It resonates with the ancient Russian traditions of solidarity and collectivism."

In outlining his plans, Mr Zyuganov said he would guarantee all citizens a job, accommodation, free education and healthcare, and a decent pension. He also promised to compensate those who had lost their savings as a result of "reform".

While promising to preserve

sure of economic liberalism below. "The ruling powers assert that the communists and their allies want to return the country to the past. But to return there is impossible for the simple reason that we are from the past and we have not left it," Mr Zyuganov said.

But, as Nato commanders used to say of the Soviet threat, it is perhaps worth trying to distinguish between Mr Zyuganov's intentions and his capabilities.

The first restraint on a President Zyuganov implementing such a sweeping programme would be political. Mr Zyuganov is likely to seek election as a representative of a wide coalition of anti-Yeltsin "national-patriotic" forces rather than as just the Communist party leader. His government may have to reflect that reality.

Mr Zyuganov's supporters span idealistic western-style social democrats to diehard communists, such as General Valentin Varennikov, a supporter of the hardline communist coup in 1991, who has talked of the party having a secret and extreme "maximum programme" - like Lenin's Bolsheviks. All will have to be appeased.

Moreover, the communists do not appear to have a team of economic experts technically capable of running a government. That suggests Mr

Zyuganov may have to co-opt existing ministers or - as is widely rumoured - seek to embrace politicians such as Mr Grigory Yavlinsky, a radical economist and leader of the liberal Yabloko movement.

Even if hardline communists were to emerge dominant it is doubtful whether they would be physically capable of implementing their policies. Russia's influential regional leaders, powerful industrial bosses, forthright journalists, and even criminal gangs would surely check any communist attempts to centralise control and renationalise property.

The sinews of power also appear weak: the army has discredited itself in Chechnya; the revamped KGB has largely privatised itself, and there are more private security guards in Moscow than police.

The immediate testing ground for a Zyuganov administration would be in the economy. The defining feature of Mr Zyuganov's electoral platform is that the state will have to spend more money. Its foggiest aspect is where it will come from.

Within weeks, if not days, President Zyuganov will face a stark choice of either printing money again to finance his pledges - and inevitably sparking inflation - or renegotiating the non-inflationary stabilisation programme agreed with the International Monetary Fund. At that point, Mr Zyuganov might simply evict the IMF whom he has previously described as "Nazi gaudlers".

But such a move would almost certainly spark a currency crisis, a collapse of the government debt market, and a confrontation with the central bank resulting in unimaginable economic and political consequences.

Assuming the communists understand that danger, the best guess is that moderation would prevail.

"All their instincts and ideas are from the past, given they were part of the ruling caste of the Soviet Communist Party, and there is no ideological basis for fanatical behaviour," says Mr Christopher Granville, head of research at UCB, a joint venture investment bank.

"They want power and they will compromise with reality to keep it. The question is how long will it take and how much damage will they do in the meantime."

RUSSIAN BANKS

Table with 5 columns: Year (1992, 1993, 1994, 1995), Number of banks, Number of branches, Licences withdrawn by CB.

End September, unless otherwise indicated. Excluding Sberbank. **end-1992. Source: Central Bank

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Capital Markets: by John Thornhill

Reining in wild expansion

The commission has been striving to create the legal framework for fair and free markets

Mr Dmitry Vasiliev, the undemonstrative chairman of Russia's Federal Securities Commission who combines an earnest demeanour with a seemingly permanent cold, faces a truly Herculean challenge.

The 33-year-old research economist is responsible for supervising the development of Russia's unruly capital markets, which exemplify both the raw dynamism and alarming chaos that has characterised the country's transition to a market economy.

Born almost as an afterthought in the wake of mass privatisation in 1993, Russia's securities market has since experienced extraordinary, if wild, expansion with not even the most basic trading rules in place.

The market, which sprang up spontaneously as brokers began trading the shares of newly-privatised companies,



Vasiliev striving for greater order

boomed in 1994 as Russian funds tried to grab stakes in the country's most valuable enterprises and foreign investors piled into what they believed was the "last great emerging market of the century."

But share prices collapsed later that year as several well-publicised scandals, involving secret share issues and deletions from shareholder registers, highlighted just how undeveloped the market

remained. The market value of Russia's biggest companies now languishes at about \$19bn - an extraordinarily low valuation given Russia's size and potential wealth.

The government bond (GKO) market, which has grown into the government's chief source of raising non-inflationary finance, has also developed rapidly since its creation in 1993.

The total stock of Treasury bills rose to almost \$16bn at the end of 1995 and could grow to \$20bn by the end of the year. But the market has been marked by extreme volatility and dogged by allegations that restrictive practices keep yields artificially - and astronomically - high.

The Russian government pays more for the money it borrows from investors than almost any other government in the world.

All the while, Mr Vasiliev and the commission's small staff have been struggling to bring greater order to the capital markets - to enable companies - and the government - to raise capital as cheaply and efficiently as possible and protect the rights of both domestic and foreign investors.



Traders at the Moscow commodity exchange: raw dynamism and alarming chaos have characterised the country's transition to a market economy

"I consider the first steps in the right direction have been successfully taken but we still have a long way to go," says a somewhat world-weary Mr Vasiliev, who has just been confirmed as the commission's permanent chairman.

Over the past year, the commission has encouraged the creation of the legal underpinnings of fair and free markets. New laws on joint

stock companies and investor protection have come into force this year defining directors' obligations and strengthening shareholder rights and corporate governance.

Steps have also been taken to improve the liquidity and transparency of the markets themselves.

Many of Russia's biggest brokers are now linked through the Russian Trading System (RTS) which has improved the reliability of trades in the market and helped narrow spreads between buy and sell prices.

Inevitably, perhaps, progress has been slower than most investors would have liked and particular concerns remain about the inadequacy of shareholder registers and clearing and custody procedures.

But the greatest doubts surround the commission's ability to enforce its own regulations.

The commission has few powers to fine miscreants or prosecute fundsters in the courts.

Mr Vasiliev concedes the commission is a long way from establishing the principle that those who commit crimes on

Russia's capital markets will be punished.

Yet confidence in the integrity of market operators will be critical as the commission tries to encourage the formation of domestic investment funds, modelled on US mutual funds, to channel a vast pool of domestic savings - estimated at \$20bn - into productive investments.

At present, the equity market is overwhelmingly swayed by inflows and outflows of foreign capital which would appear politically unsustainable.

"Russian investors are playing a more important role

in the market and that is a very necessary and healthy development," says Mr Martin Anderson, chief executive of Brunswick, a Moscow-based stockbroker.

But Mr Vasiliev's efforts to build orderly markets may ultimately rely on other parts of the government pressing ahead with the reform agenda and de-politicising the economy even further.

Free competition must be encouraged, ownership rights must be enforceable in the courts, and a fair tax code must be introduced to ease the creation of investment funds and encourage companies to

report rather than conceal their profits.

Many Russian companies are wary of disclosing full information to shareholders for fear of attracting punitive taxes. "You will never see a financial statement with real numbers in it until the government changes the tax system," says one Moscow-based financier.

"At the moment the companies are keeping their accounts locked up in safes because they do not want to reveal how much money they are making."

For the moment, Russia's stock market is hovering around its all-time lows, discounting a lot of uncertainty ahead of the presidential election in June.

But some foreign investors are still prepared to put money into the market. Alfred Berg, the Nordic investment bank, recently bought 3.3 per cent of Lukoil's shares for \$130m on behalf of institutional clients.

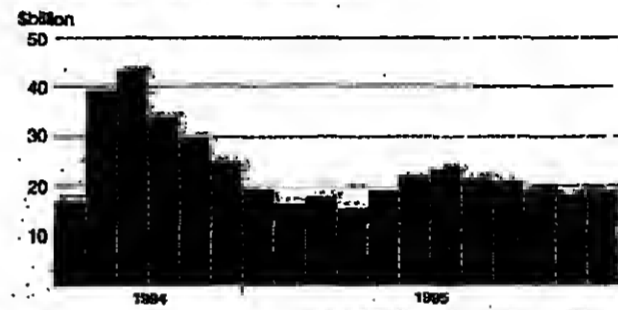
And foreign stockbrokers predict that a flood of foreign portfolio investment will sweep into Russia's equity and bond markets if Mr Yeltsin is re-elected, putting even more pressure on the commission to finish building the market's infrastructure.



Dormash plant in Minsk: the market value of Russia's biggest companies now languishes at about \$19bn

Picture: Tony Anderson

Stock market capitalisation



Market capitalisation in the local value of all shares in those Russian companies listed on the open market. The series covers around 200 firms, but excludes banks

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VIII RUSSIA

Culture: by Arkady Ostrovsky

Artists seek new role

Solzhenitsyn is a sort of dinosaur, commercially unprofitable in the new Russia

If revolutions are to be judged by an outburst of creative energy, then the collapse of the Soviet Union in 1991 has not produced artistic outpourings to qualify it for such a title. Liberated from political censorship and with it from generous state subsidies, Russian artists felt lost and disoriented. The old familiar system of values has vanished; political opposition to the state and the moral guidance of the people is no longer an exciting or rewarding business. "With the fall of the super-empire, Russian culture lost its super-meaning," says Anatoly Smelyansky, one of Russia's best cultural critics. "Russian culture has to find a new structure."

Finding money and discovering a new role in this increasingly de-politicised society are two main problems artists face in today's Russia.

Financially things could be worse. In spite of the tough economic conditions in the country, not a single theatre or museum has closed down. Thick literary journals continue to come out and Tchaikovsky's Conservatoire is still open. "Our primary task was to preserve what was already there, and we succeeded," says Mikhail Shvydko, the deputy minister of culture. But while an orchestra can tour abroad, or a theatre can rent its premises, the artistic problems remain.

For centuries Russian literature rested on the notion that "a poet in Russia is more than a poet," Joseph Brodsky, who died this year, said in his Nobel prize lecture that "as long as the state permits itself to interfere with the affairs of literature, literature has the right to interfere with the affairs of the state." Today the state no longer interferes with the affairs of literature; young writers have no will to criticise the state or guide the people and people do not want to be guided. They just do not care.

All this makes Solzhenitsyn something of a dinosaur. His

weekly "sermons" delivered from the television screen found little enthusiasm even among the intelligentsia. Unable to compete with the new quiz shows, Solzhenitsyn's programme was finally cancelled - this time not as an act of repression, but as a response to the market. Solzhenitsyn, whose *Gulag Archipelago* about the Soviet Union, is simply a commercially unprofitable writer in the new Russia.

Many Russian artists are forming an alliance with the government, which, in its turn, is only too keen to display its cosy relationship with famous actors and film-makers.

Mark Sakharov, the talented director of the commercially successful Lenkom Theatre, is one who has crossed the dangerous line traditionally dividing the artist and the state. Publicly fraternising at his

Sakharov declared his loyalty to Yeltsin in a TV interview

birthday celebration with members of the government and the new financial elite, Sakharov (referred to by Yeltsin as "our Mark") fulfils Brodsky's prophecy that the real danger for an artist "is not so much the possibility of persecution on the part of the state, as that of finding oneself mesmerised by the state's features, which, whether monstrous or undergoing changes for the better, are always temporary."

In a recent TV interview, Sakharov, once a witty and sarcastic critic of the state, declared his loyalty to Yeltsin - while just at that time, human rights campaigner Sergei Kovalyov resigned from the presidential council in protest against the president's undemocratic policies.

Once a relatively homogeneous group, the Russian intelligentsia is becoming increasingly diversified in its financial status, political beliefs, and cultural tastes.

The Moscow theatre hill ranges from Sergei Zhenovach's 10-hour adaptation of Dostoevsky's *The Idiot* to a 1½-

hour version of *The Brothers Karamazov* by Valeri Fokin, which digests the famous bits of the novel and tells you everything you need to know about Dostoevsky but were afraid to ask. By contrast, in the audience, the sound of mobile telephones and pagers shows up the "new Russians".

Slowly recovering from an overdose of Big Macs and equally indigestible American cultural fast food, Russians are turning to homemade products. The Mexican soap operas which accompanied the transformation of Russia into a third-world economy are no longer in vogue.

"People watched so many Mexican soaps that they got to know more about Mexico than about their own country," says Elena Gremlina, the co-writer of the first successful Russian TV serial, "People miss the sound of their own language."

Gremlina's 48-part series is based on the 19th century best seller *Petersburg Mysteries: A Story of the Hungry and the Fed*. But it is mostly "the fed": noble characters, the offended maid, the femme fatale, all in period costume - and all having as little to do with contemporary Russian life as Latin American passions. On the plus side, there is excellent acting and quality Russian language.

The success of *Petersburg Mysteries* testifies to people's growing appreciation of their own cultural traditions, including those of the Soviet age. "You can knock down the monuments and rename the streets, but this is the only past we have," says Anatoly Smelyansky. Soviet relics which only a few years ago were so keenly obliterated are now back in fashion.

Unlike many other political parties, the communists did not have a media advertising campaign in the last parliamentary elections. Nor did they need one. A nostalgic wave of Soviet songs and films was enough to accompany their victory in December.

Should the communists come to power in June, they are likely to restore not the cinematic illusion, but the grim reality not projected by socialist-realist films.

Arkady Ostrovsky is a book and theatre reviewer for the FT

Agriculture: by Sander Thoenes

Privately better off

Productivity has fallen at most farms registered as co-operatives or companies

At the private farms that used to be part of the Vilyams State Farm in the Rostov region of southern Russia, many of the 380 farmers have bought new cars, built new homes and earned more than Rb330m (\$4,000) each last year. The fields are ready for spring sowing, the cows are fat and shine with health.

"We gathered all the people who really wanted to work," said Mr Andrei Nesterov, a vet at the Kuznetsov association of 12 former Vilyams employees. "At the state farm we couldn't be bothered to work. Now we don't fool around. We are working for ourselves."

At the nearby Lenin Collective, a one-time model farm that used to host scores of foreign delegations, most of the 1,850 employees make about Rb1m annually and would go hungry if not for their private one-hectare garden lots where they hold chickens and grow vegetables. Many of the fields lie abandoned. The cows are skinny and their hunches covered in grey scabs.

"This used to be a wealthy farm, and now there is nothing," complained Mikhail, a tractor driver at the farm. "The farmers who left are doing fine, and we have nothing. If I had known it would be like this, I would have left too."

The farmers at Vilyams, named after a famous Russian agronomist of British descent, are the exception. Although there are an estimated 283,000 private farms in Russia, including 16,000 in Rostov, they hold only about 40 hectares each on average and many are struggling to make ends meet.

But they are better off than most members of the 26,000 state and collective farms which still control more than 90 per cent of Russia's farmland. Most farms merely re-registered as co-operatives or companies.

The only thing that has changed, other than the name, is productivity. The grain harvest of 1995, at about 85m tonnes, was half of 1970s levels; production of meat and milk



Fat and healthy: a cow on a privately-owned farm

has dropped about 50 per cent in recent years.

The market has been flooded with food imports, causing the government to raise import tariffs even though it admits that domestic producers can barely meet 80 per cent of the country's needs. The collapse of agriculture has slowed down economic recovery in other sectors; the Rosselkhozbank in Rostov, for instance, sold only 6,000 harvest combines last year, down from 50,000 a few years ago. Agricultural subsidies still swallow 11 per cent of Russia's depleted federal and regional budgets.

Mr Boris Yeltsin, Russia's president, in March signed a decree ordering local officials

to speed up the privatisation of land, reaffirming a farmer's right to break away from a state farm and sell, mortgage or lease his land share. "This is a powerful step forward toward real private ownership of land," said Mr Alexander Zaverukha, deputy prime minister. "Until now, a farmer became owner only nominally, but in reality he did not."

In regions like Rostov, however, many officials prefer to wait to see who will win June's presidential elections before making commitments to politically sensitive land reforms.

The ratings of Mr Gennady Zyuganov, the Communist party chairman who has made no secret of his opposition to

private land ownership, are close to Mr Yeltsin's. "It's a bad decree," grumbled Mr Victor Tkachev, deputy chairman of the Lenin farm. "It's just an election campaign gimmick. Nothing will actually happen."

The International Finance Corporation, a member of the World Bank Group, has sent 250 staff into six regions to help state farms go private. Funded mainly through nearly \$21m in grants from the British Know How Fund, the IFC has assisted in 104 farm re-organisations and hopes to privatise another 50 before sowing starts in April. Re-organisation frees farm members to break away and found a family farm, or to combine land shares and form

private land ownership, are close to Mr Yeltsin's. "It's a bad decree," grumbled Mr Victor Tkachev, deputy chairman of the Lenin farm. "It's just an election campaign gimmick. Nothing will actually happen."

Daunted by such prospects, a growing number of the farms privatised by the IFC actually stays united, much as they used to be. "People are taking a wait-and-see attitude," Mrs Gorodtseva says. "A lot of farms in the east are not doing anything."

At least one team of farmers at the Lenin Collective has tried to take its land share and leave, but their farm is one of thousands of state and collective farms throughout Russia that are banned from breaking up. Frustrated, many pillar spare parts of farm equipment for a bottle of vodka; recently a whole tractor disappeared.

"We should not be waiting, but this collective will be the last to go," predicts Mr Fyodor Kuzekbayev, in charge of 24 idle grain sifters at the Lenin Collective Farm. "We will hold on until we collapse. And only then will we reform."

How they compare: facts and figures

In Russia, there are 283,000 private farms and 26,000 owned by the state, according to AEFOR association of private farms and the International Finance Corporation, Sander Thoenes writes. They farm respectively 12m and 150m hectares and employ 600,000 and 18.1m.

According to Mr Alexander Zaverukha, deputy prime minister, the production share is: vegetables 88 per cent private and 12 per cent state; potatoes 82 per cent and 18 per cent; milk 42 per cent and 58

per cent and meat 48 per cent and 52 per cent.

In Rostov, the regional government says that there are 16,000 private farms working 840,000 ha and 900 state farms working 8m ha.

In Vilyams/Lenin, there are 350 private workers, 1,850 state farmers; 340 private pensioners and 1,000 state pensioners. Hectares of farmland: 10,380 (private) and 25,800 (state). Annual income per farmer: Rb20-35m (private) and Rb15m (state). Rent per landshare: Rb1.25m

(private) and Rb15,000 (state).

Precise figures for harvest and the number of cows and pigs are unobtainable. Vegetable production and the number of cows in private gardens, though estimated to be at 80 per cent of total levels, do not appear in statistics. A drop in the number of cows can be largely attributed to their being moved to garden lots, for instance. In addition, state farms have under-reported production and sold the difference to private traders.

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GUM, Russia's most famous department store, offers a lively example of the country's burgeoning market economy

A business traveller's guide to survival in Moscow: by Chrystia Freeland

Comforts for the well-heeled

A comparison of destinations found Moscow to be the world's most expensive city

In the 1940s the Marquis de Custine, whose account of his travels to Russia, especially its hinterlands, can still be a test of wits and endurance. But nearly five years after the collapse of communism, in the bigger cities Russia's fledgling market economy can now offer the well-heeled business visitor most of the comforts of home.

The biggest catch is a complaint which Russian President Boris Yeltsin is likely to hear on the campaign trail from his own citizens: in contrast with the endemic shortages of the USSR, an almost unlimited array of goods and services is available in the new Russia, but often at prices which are steep for western visitors, not to mention the impoverished local population.

Earlier this year, an international comparison of business destinations found Moscow to be the world's most expensive city. The survey, by EuroCost-Luxembourg, estimated the average cost of a 24-hour stay in Moscow at \$543, putting the

former Soviet metropolis ahead of capitalist bastions such as Tokyo (\$516), London (\$382) and New York (\$342).

Hotel bills are the most expensive part of a trip to Moscow, which now boasts dozens of lavish, recently renovated establishments. The most gorgeous of the lot - and one of the most pricey at \$942 per night plus tax for a single - is the Balteschong Kempinski (tel: 7-501-230-9502) whose star attraction is panoramic views of the Kremlin.

For visitors who want to be in the very centre of town, two luxurious and historic options are the National Hotel (tel: 7-095-258-7000), which charges \$255 plus tax per night for a single, and the Metropol (tel: 7-501-927-1000), where a single room costs \$810 a night plus tax.

Business travellers trying to cut costs could try one of Moscow's more modestly priced, mid-range hotels like the Tverskaya (tel: 7-095-268-3000) where singles are \$230, plus tax, or a bit further from the centre, the Arcotour (tel: 7-502-224-1104) where singles, with breakfast, cost \$235 plus tax.

Visitors eager for a taste of the old Soviet-era Russia, before the arrival of sleek western consumer culture, can dare the Hotel Ukraina. Focused in one of the seven Stalin skyscrapers which dominate the Moscow skyline, the Ukraina is impressive from the outside and at \$80 per night plus tax for a single room it is a bargain by local standards. But inside,

it offers a genuinely Soviet experience, with lumpy beds, grimy bathrooms and telephones that ring late at night offering guests the compensation of "pretty ladies".

Moscow also now offers a wide variety of restaurants. For an elegantly prepared, Russian-style meal, one of the best choices is O11 (tel: 209-0963) centrally-located restaurant decorated to resemble a 19th-century Russian drawing-room. Main courses average \$20-\$30. One of the most popular local hang-outs is Santa Fe (tel: 256-1487), a large, boisterous Tex-Mex eatery, where young, prosperous Russians go to show off their newest outfits. The city's best Italian food is served at Il Pomodoro (tel: 224-2911), a relaxed, cheerful restaurant whose Italian proprietors import many of their ingredients from home.

The wrenching transition to a market economy has bred a frenetic business culture in Moscow, where most business travellers race from one meeting to the next and late night appointments are not uncommon. But visitors who make the time to enjoy some of the cultural and historical sites of Moscow will be rewarded by a wakefulness which is slowly re-educating from 70 years of communist hibernation.

Afar visiting the Kremlin, a palimpsest created by medieval Russian tsars and Soviet commissars, a walk across Red Square to GUM, Russia's most famous department store, offers a lively example of the country's burgeoning market

e co-operative or company with other members. Pensioners, who make up about half of all farm collectives, can rent out their share to private farmers who need more than just their share to make a profit. Pensioners at Vilyams earn over Rb1m a year in rent, though much of it in kind, such as flour and fresh health care.

"We don't pretend it's a panacea," said Mrs Catherine Gorodtseva, project leader for the IFC in Moscow. "It's a first step."

But it is a step into the dark. The lack of legislation has kept land sales and mortgages all but impossible in most regions. Banks, hurting from too many bad loans, have become loath to take harvests, equipment or farm houses as collateral. Prices of equipment, fertiliser and herbicides have soared because too few private traders have started competing with formerly state-owned suppliers. Meanwhile, farmers have little choice in selling their produce to food-processing plants, which have maintained ties with large state farms and keep prices down. The price of milk, for instance, has stayed absurdly low at Rb800 for more than a year; in response, many farms have sold or slaughtered their cows.

Mr Yuri Klimenko, head of the AKFOR association of private farmers, estimates that only about 15 per cent of private farmers, mostly those who managed to take equipment from the state farm and obtain cheap credits in 1991 or 1992, are making a profit.

Daunted by such prospects, a growing number of the farms privatised by the IFC actually stays united, much as they used to be. "People are taking a wait-and-see attitude," Mrs Gorodtseva says. "A lot of farms in the east are not doing anything."

At least one team of farmers at the Lenin Collective has tried to take its land share and leave, but their farm is one of thousands of state and collective farms throughout Russia that are banned from breaking up. Frustrated, many pillar spare parts of farm equipment for a bottle of vodka; recently a whole tractor disappeared.

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سكرا من الاصل

PROFILE Aman Tuliev

Militant coalminers find a new hero

Five years ago, the militant miners of the Kuzbas coalfields in western Siberia propelled Russian President Boris Yeltsin into the Kremlin by staging a protracted strike which helped to unravel the Soviet Union. But today, the Kuzbas miners have a different hero: Mr Aman Tuliev, one of the most prominent figures in the communist coalition which is leading the polls ahead of the June presidential ballot.

the Communist leader, has made him the darling of the rank-and-file party activists who selected him as the left's "reserve" candidate for the presidential elections. This popular following means that if the Communists win, Mr Tuliev, a 52-year-old former railway boss who is often touted as a potential prime minister in a leftist administration, could become one of the most influential politicians in Russia.

hard-line wing of the communist bloc, has an almost perfect record of opposition to Mr Yeltsin and his reform team. Mr Tuliev was already a fierce Yeltsin opponent in 1991, when he was elected Russian president at the peak of his popularity. The Siberian railwayman went on to oppose Mr Yeltsin at another turning-point in Russian politics: the October 1993 stand-off between the president and the conservative parliament.

concentrate on making the pie bigger." Indeed, instead of portraying the contest between Mr Zyuganov and Mr Yeltsin as an ideological clash between communism and capitalism, Mr Tuliev likes to describe it as a choice between honest, well-disciplined government (the communists) and corruption (the current regime). "Today in Russia we have very, very weak financial discipline, we've never had such weak financial discipline in Russian history," Mr Tuliev says.



Aman Tuliev could become one of the most influential politicians in Russia

many banks and businesses support the communist coalition, but they have requested anonymity because they fear reprisals from what Mr Tuliev describes as "our mafia state." Mr Tuliev believes that the Kremlin's chief election strategy is to frighten off the left-wing's moderate supporters by evoking the bloody days of Russia's first communist take-over in 1917. They try to

Christia Freeland

PROFILE: Oleg Soskovets by John Thornhill

Powerful and secretive

The senior first deputy prime minister, he is in effect number two in the government

Mr Oleg Soskovets, the first deputy prime minister who is playing a prominent role in President Boris Yeltsin's re-election campaign, is unquestionably one of the most powerful figures in the Kremlin - and one of the most secretive.

47-year-old minister certainly prefers to work underground shunning the political limelight and declining most interviews. Despite his low public profile, Mr Soskovets provokes strong reactions from those on the liberal wing of the government who liken him to a "prince of darkness" silently murdering reformist proposals in the shadowy recesses of the Kremlin.



Soskovets often stands in for Mr Yeltsin on ceremonial occasions

"I know him [Soskovets] extremely well as a person and I never had any problems when I worked with him," he told the Nezavisimaya Gazeta newspaper. "In contrast to Chernomyrdin, he never led me up the garden path nor made me hash heads with other ministers and was always helpful."

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PROFILE Rem Vyakhirev

Fighting his corner

The world of Rem Vyakhirev, the chairman of Gazprom, Russia's richest and largest company, is nothing if not expensive.

And he also knows this industry better than others. But if Mr Chernomyrdin had to choose between Gazprom and the state, of course he would choose the state.

Gazprom understands the new answers of its sales strategy. His temper is tested by such arguments. "Why should I be stupider than any western gas salesman," he demands.



Rem Vyakhirev: the chairman

In recent weeks he has turned up in locations as varied and exotic as Turkmenistan, the gas-rich former Soviet republic on the Caspian Sea, and the Mansion on Turtle Creek, the swankiest hotel in Dallas, Texas.

He and his company's interests are equally varied. Gazprom is the world's largest natural gas producer, controlling about a fifth of total global reserves. The largest gas exporter to western Europe, it keeps thousands of factories humming and tens of millions of houses heated across Russia, the former Soviet republics and in countries throughout western, central and eastern Europe.

As for Gazprom's future Mr Vyakhirev says it should prove bright whatever the political circumstances. "No matter who is in power, they won't start dividing the pipelines," he says. "The system cannot be disturbed," and exports to the west will not be endangered. Mr

Vyakhirev may also be proved right in his conclusion that Gazprom is simply too powerful and too important to be tampered with. But as many observers point out, it is also simply too high and too rich to be ignored.

Robert Corzine

IEC. DIVERSIFICATION INSURES SUCCESS

Doing business in the unstable economic and political environment of today's Russia becomes a severe test even for international companies backed by ample financial resources and management know-how. Still more trying is it for local private firms intent on respectable ways of generating revenues in the country where the word "private" raised eyebrows just a decade ago.

Not very profitable currently but promising in the future are IEC's investments and acquisitions in agribusiness (7400 acres of farm land, meat processing factories near Moscow), bottling plants for non-alcoholic beverages, new technologies, housing construction and civil engineering projects in a number of Russian regions.

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For fast-breaking news and analysis of the forces at work in the turbulent regions of the FSU. How to Profit From Chaos - The former Soviet Union is incomparably rich in oil and gas resources, outstripping all Middle East producers both in terms of combined reserves and opportunities for foreign companies to develop them.

X RUSSIA

Oil industry: by Robert Corzine

Western groups proceed with care and caution

Russian companies will still continue to have need of more foreign investment

The future structure of the Russian oil industry remains uncertain, with both domestic and foreign executives awaiting some indication of the outcome of the June presidential election.

The re-election of President Boris Yeltsin would, many Russian executives say, mean a continuation of the process that has resulted in the creation of powerful, vertically integrated oil companies, a number of which are now affiliated to Russia's leading banks. Views of the impact on the industry of a communist victory are mixed, however. Mr Sergei Muravlenko, the head of YUKOS, the second largest oil company, says a communist victory could result in certain corrections, perhaps, but not "a 180 degree turn away from past policies."

Mr Vadim Alskopov, the head of LUKoil, the largest Russian oil company and the most internationally active, is confident the present structure has proved itself. Both men cite signs of stabilisation in oil production, after years of steep falls, as proof that the vertically integrated structure is working, although many of the new holding companies are still struggling to take full control of the subsidiary production associations which run individual oil fields.

Mr Muravlenko believes that the pressure of the industry is higher now, in spite of the decline in production. Others say the industry has been badly tarnished by the loans for shares scheme introduced last year by the government. Large parts of some oil companies were snapped up by banks willing to lend the government money in exchange for shares.

Such ties between the banks and the oil companies have not been entirely unwelcome, however. YUKOS, for example,

says it is happy with its relationship with Menatep, the bank with which it is affiliated. Menatep provides the financial skills which were missing within YUKOS, executives say. "We told Menatep that we have great experience in production, and you are skilled in financial matters," said Mr Muravlenko.

Such marriages of industrial and financial muscle may make sense in Russia, where even the largest companies are still trying to master capitalist techniques but some potential western investors are more cautious in their assessment, fearing that in some cases the banks see the oil companies as "cash cows" ready to be milked.

The inclusion of more sophisticated financial skills within the Russian companies will also not eliminate their need for foreign investment to fund new projects. LUKoil, for example, says it has sufficient resources with which to maintain domestic production. It needs additional cash and western investors, such as Arco of the US, to fund its ambitious list of new development projects in Russia and other former Soviet republics.

Other companies have also paired off with western partners. YUKOS has linked with Amoco of the US, upon which it has also modelled itself.

Big western investments are dependent, however, on the creation of an acceptable production sharing law, an issue that is too politically sensitive to be resolved before the elec-

tion. The legislation which has emerged from a long and painful parliamentary process is seen as flawed by most international oil companies. They remain sanguine, however. "It was a giant step from where they were, so does it really matter that they missed the step by half an inch? We can remedy that," one western oil man observes.

Some Russian companies, including YUKOS, have lobbied strongly for a law that would allow large western-financed

There is no certainty the tax regime will be stable enough to take risks

projects to proceed but no big project is likely to begin until a number of amendments to the legislation are made.

There is still no certainty that any tax regime will stay stable enough for companies to risk billions of dollars, and no agreement on binding international arbitration in the event of disputes.

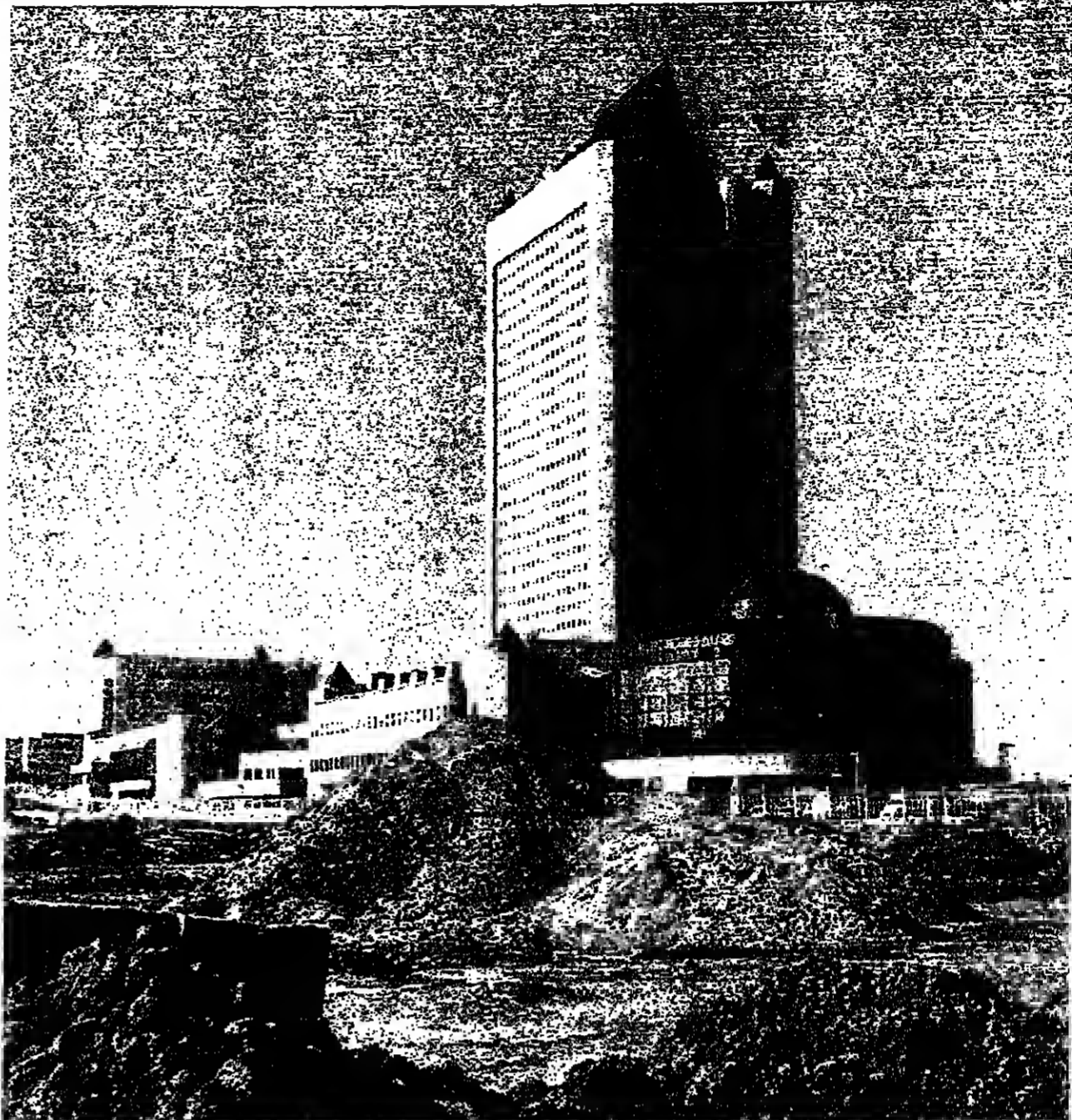
Western worries have been fuelled by the problems encountered by the few foreign-funded projects which have begun to operate in Russia, such as Conoco's Polar Lights joint venture. This has had a number of new taxes applied to it in recent years, all of which have seriously under-

mined its viability. The project is now cash positive, say Conoco executives, but no dividends have been paid to the shareholders. "Normally the first international company to enter a previously closed country is the big winner," said one Moscow-based oil man, "but that is not the case in this country." Western groups also worry that any market openings may prove short-lived. "They may let us in for five years and then kick us out," says another executive. Confidence has also been undermined by cases where agreements with the Russian government have been torn up.

But some big oil companies concede that they have not done enough to rally support for foreign investment. There is widespread suspicion of western oil companies in Russia, in part because they have failed to get the message across that oil investments will create thousands of jobs in Russia, says one executive. Some foreign oil companies have also demanded assurances from the Russians that would not be required in many other parts of the world. Smaller foreign companies appear to be more willing to take on higher risks, although the projects in which they are engaged are relatively small in scale.

The legal and tax framework is not the only worry for potential foreign investors in the oil sector. Transporting oil to export markets is also problematic. Transneft, the monopoly operator of the big export pipelines, is "unpredictable, expensive and an environmental nightmare," says one executive. Even with such problems, most of the big western companies seem prepared to stick it out in the hope that the business climate will improve after the election. "When you are working on a 50 year project, what is another month, three months or six months?" said the head of a US group.

Others say that even if Mr Yeltsin is elected, it could be 12-24 months before the first big foreign-financed project is under way.



The Gazprom building: the house that Gaz built on the edge of Moscow and headquarters of the world's largest natural gas producer

The north: by Robert Corzine

El Dorado still untapped

Moscow politicians worry about a division being created with the rest of Russia

The thousands of kilometres of snow-swept tundra in Russia's Arctic regions hide a treasure trove of oil, natural gas and other resources.

Some inhabitants of the far north believe it will only be a matter of time before the development of such resources transforms the sparsely populated area into another Kuwait or United Arab Emirates. Others, citing the total absence of roads, railways and other infrastructure in much of the area, are less optimistic.

But few dispute that the northern economy could "slowly die" without a massive injection of investment in the region's natural resources.

Many inhabitants of the far north are clearly struggling to come to terms with the new Russia.

In the Nenets autonomous area, some 1,000 miles north-east of Moscow, 7,000 Nenets, a nomadic people, live off the reindeer herds that move across the bleak tundra.

In the Soviet era not only did the government buy all the reindeer meat they could produce, but it also sent helicopters to transport it to market.

Now the Nenets are discovering what market forces mean in a remote Arctic area. Some sit for days outside the oil exploration camps that dot the region in the hope of selling the frozen sides of reindeer meat that are piled high on sleds.

"Most, however, just don't know what to do with their venison," says one local official. "Nor do those on remote settlements on islands in the Fehora Sea know how to pay for the firewood needed to sustain them through a winter."

Those at the opposite end of the technological spectrum are finding the going equally tough. Many of Russia's nuclear submarines were built near the port city of Archangel. But those orders have dried up and civil contracts are rare and unpredictable.

The discontent in the region caused many people to support the ultra-nationalists of Vladimir Zhirinovskiy in last year's parliamentary elections.

But it is hard to see how the north can be developed by Russian efforts alone, especially when it comes to exploiting the oil and gas reserves which, many officials say, is the only certain way to kick start the economy.

Some officials see oil and gas as a panacea. They say revenues from royalties could subsidise the traditional way of life of the Nenets and Komi, the other nomadic people in the far north, while billions of dollars in western investment would breathe the new life into the moribund factories of Arch-

angel and smaller settlements.

Certainly there is no shortage of development proposals from US, French and other foreign companies. A number of large oil and gas fields were discovered by Soviet geologists, although only a few were developed because of the remoteness of the area, the complexity of the reservoirs and the Soviet oil industry's focus on the giant fields of western Siberia.

But the north's very remoteness is an attractive feature to some western companies. No big Russian oil companies operate in the area, so "unlike western Siberia, we're not stepping on anyone's toes," says one western oil man.

"And there is no risk that the oil is not there," according to Mr John Cappe, the head of Conoco's Polar Lights, one of the few western-financed projects which is up and running in the north.

In addition the quality of the oil in the far north tends to be high, although exports from the region are currently mixed in the main Russian pipeline system with lower grade crude oils and therefore do not attract a premium price.

That situation could be remedied, however, if a dedicated export pipeline from the region is built. Such a scheme appeals to many foreign oil companies which are wary of the bottlenecks and environmental disasters which have occurred in the old Russian system.

Both Russian and foreign oil

men say the area's potential will never be fully exploited until a regional transportation solution is agreed on. Not surprisingly many in the region argue strongly in favour of a dedicated northern terminal that would boost the local economy and allow oil exports to be sent directly to northern European markets.

Such schemes have caused concern among some Moscow politicians, wary of any project that might reinforce the separation between the far north

and the rest of Russia. Neighbouring republics to the south, such as the Komi republic, are also critical of a northern route, as they want the pipeline tariffs that would result from a pipeline to the south.

Mr Vladimir Bytova, an entrepreneur and politician in Naryan Mar, the administrative centre of the Nenets region, dismisses fears that a northern route would loosen ties to the rest of the country. He argues that the federal government will have to support the cheapest transportation solution, which he says will be

The federal government will have to support the cheapest transport solution

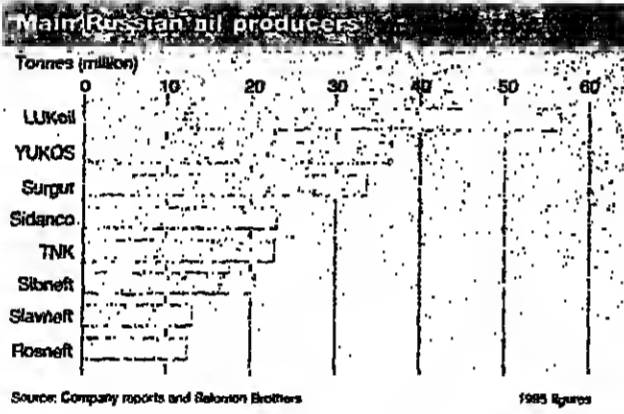
the northern route. Like many in the north, he believes large-scale development of oil and gas will be needed to provide jobs to the area's young people. Mr Bytova started his business career by selling reindeer horns to South Korea. But he says "young people now don't have the same opportunity to start a business."

The consensus on the importance of developing the area's resources does not extend to who should benefit most from their exploration. Most of the oil fields, for example, lie in the Nenets Okrug, an autonomous area with a population of only 46,000, of which about 7,000 are indigenous Nenets. Under the present system it would share most of the wealth with the federal government in Moscow.

But little income would accrue to the more heavily populated region around the port city of Archangel, which already acts as an administrative, technical and support centre for western oil companies operating in the Nenets Okrug.

Some politicians envisage a single government for the far north. That, they say, would give the area a stronger voice in Moscow and justify demands for a bigger slice of the revenues from natural resource developments.

But for others any scheme to share the wealth more widely would mean putting an end to their dreams of creating a Russian Kuwait.



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INTERNATIONAL HOTELS

Serious competitors vie for global status

Big hotel companies are busily making cross-border deals in their quest to transcend their national origins. Scheherazade Daneshkhu reports

At a recent presentation in a London hotel an Italian hotel company announced it had struck an agreement for a Scandinavian-American counterpart to grant it the franchise to run a Scottish hotel it had recently purchased.

A deal involving such a variety of nationalities - the Italian Bonaparte group, Radisson SAS of the US and Sweden, and the Alth Castle hotel in Strlingshire - is typical of an industry as international as the hotels business.

Although cross-border ties are becoming an increasing feature of the market, there is still no single hotel group that is really global, according to the Economist Intelligence Unit. It found that the most geographically widespread companies were represented in less than a third of all countries, leaving a lot more ground to cover before any company can lay claim to being truly global.

Instead "the international industry is heavily influenced

by a small number of big participants", according to the EIU. Holiday Inn, ITC Sheraton and Marriott are in the strongest position to reach global status.

The largest groups in the international hotels industry are striving to achieve this goal. They are seeking to expand principally through franchise or management contracts. Their growth is being propelled by the revival of business travel and an increase in worldwide tourism, although regions are at different stages of recovery. The US is the most advanced while many European countries are still relatively depressed.

With the larger economies recovering from recession, the world hotel market has bounced back, according to the hotel consultancy Parnell Kerr Forster Associates. "After years of crippling price competition and low occupancy rates around the world, only those regions dogged by political instability or terrorist activity, such as the Middle East, or experiencing economic slow-down, such as Germany, are still being squeezed," says Mr Alan Hopper, PKF's chairman.

Hogg Robinson, the business travel agent, conducts an annual survey of room rates paid by its customers which this year concluded that an upturn in business travel worldwide has led to a thriving hotel industry worldwide. Increases in the average

amount paid by travellers last year reflect a level of demand not experienced since a peak in 1986 according to Mr Mika Gates, director of central services at Hogg Robinson.

"Given the high level of hotel capacity during the last 10 years, customers have been in a good position to negotiate the most competitive room rates," he says. "However, the recent increase in demand has now created a seller's market and hoteliers are starting to maximise their yields."

Added to the recovery in business travel is growth in tourism - an industry which is widely expected to be the world's largest by the turn of the century. "Business demand has matured and is following a cyclical pattern," says Mr Paul Slattery, leisure analyst at Kleinwort Benson, the investment bank. "Leisure demand has the most potential to grow and in the US, hotel companies have been building leisure resorts. This has not happened in the UK, the other major hotels market, where hotels have instead lost out to non-hotel forms of leisure accommodation such as Center Parcs."

Leisure demand has yet to develop in other parts of the world, says Mr Slattery, who believes the next big market will be the Far East. "The potential is almost frightening. Forget about the international traveller and think about Chinese people travelling within

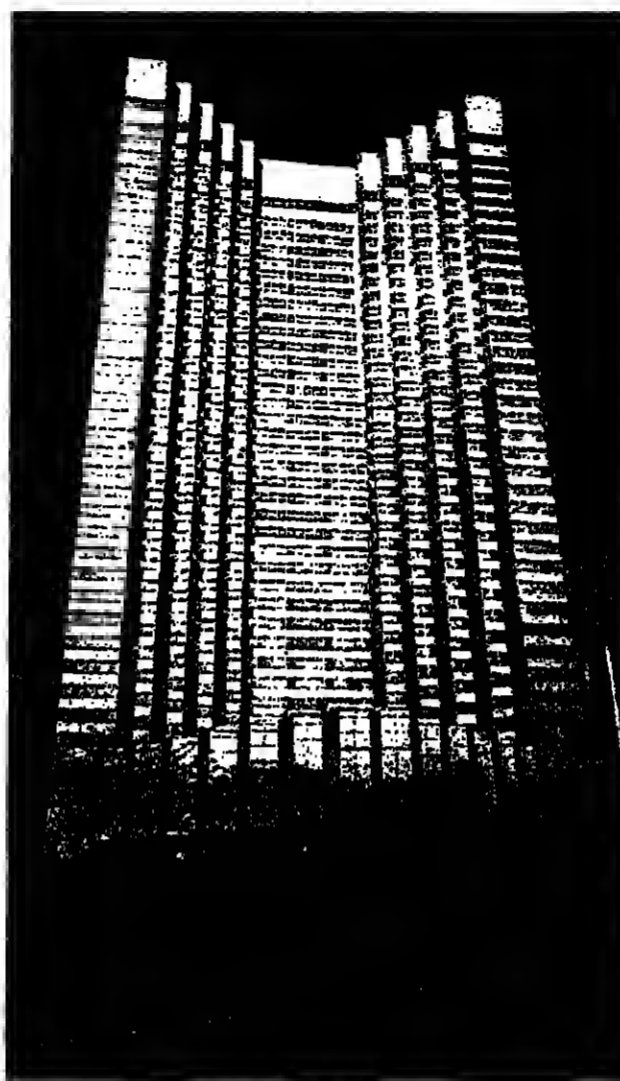


Mergers are favour of the month

China and how many hotels will be needed to accommodate them. The same will be true of India.

With such growth factors, hotel companies are keen to seize every opportunity to grow in what has become a very competitive market. Mr Jim Fisher, vice president of development at Marriott International says: "Our goal is to become a global company not a regional one." He believes the key to expansion outside the US lies in the relatively small proportion of branded hotels overseas compared to the US.

In the US 70 per cent of hotel supply is part of a branded chain, but internationally the proportion is roughly 20 per cent, giving companies seeking a worldwide brand scope for mergers and acquisitions as well as franchising and management agreements. "There is



The Aekusa Hotel in Tokyo: the Far East will go on growing

a very significant push towards consolidation among the major brands internationally and we see a significant opportunity to realise our goals," says Mr Fisher.

That consolidation, along with branding and international affiliation, has been a notable feature of the industry in recent years. ITC Sheraton's acquisition of Ciga, the Italian luxury hotel chain and Forte's purchase of Meridien in 1994 were followed last year by a number of other mergers. These include the purchase by Dusit Sindhorn, a Thai company, of 50.2 per cent of the Kempinski German luxury hotel group and the acquisition

by Singapore-based CDL Hotels Group of the Copthorne hotel chain from Aer Lingus, the Irish state-owned airline. Marriott International filled a gap at the luxury end of its portfolio by taking a 49 per cent stake in Ritz-Carlton, the Atlanta-based group.

Mr Alex Kyriakidis, partner in charge of worldwide hospitality and leisure at Arthur Andersen, accountants, believes strategic alliances will increase and will be driven by a variety of factors. These will include the ability to plug gaps geographically and to strengthen a segment, whether at the upmarket, midmarket or budget end. Such alliances

allow companies to make cost savings because of their greater combined purchasing power and a lower requirement for investment in information technology for the development of reservations systems.

Information technology is undoubtedly the major challenge facing the industry, says Mr Kyriakidis: "Hotel groups invest between \$20m to \$50m per annum in an area that is outside their core skills. The result is often systems that do not deliver or are barely able to keep up with the technology demanded by the consumer." Smaller hotel groups feel threatened by the largest hotel chains owing to the costs of developing central reservation systems. Some hotels, particularly independent ones, have formed marketing consortia, such as Relais & Chateaux or the Leading Hotels of the World.

Others have teamed up with larger companies. When the fledgling, privately-owned Bonaparte hotel group rebranded four of its six Italian hotels as Radisson SAS in February, Mr Gianluigi Faschini, its president said: "I am expecting important strategic and operational synergies to develop... through the entry of our group into their Pierre reservation system, one of the leading computerised systems in this sector." The deal allows Radisson SAS to move rapidly into southern Europe.

Similarly, the joint venture agreement struck last year between Southern Sun, South Africa's largest hotel operator and Inter-Continental Hotels and Resorts to operate hotels in southern Africa, gave Southern Sun access to Inter-Continental's worldwide marketing and distribution, while allowing Inter-Continental rapid entry into an emerging region.

However the largest hotels deal this decade did not take place between two hotel groups. Instead the £3.9bn takeover of Forte, the UK's largest hotels group was by Granada, the UK television and leisure company. It aims to integrate Forte's roadside restaurants and midmarket and budget hotels - Posthouse and Travelodge - with Granada's own operations.

The company intends to dis-

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Editorial production: Jonathan Guthrie
Graphics: Robert Hutchison, Steven Bernard

pose of Forte's international hotels - the Exclusive and Meridien groups which have a book value of £1.6bn - and to sell Forte's 68 per cent stake in the luxury Savoy group of hotels. This presents many companies and wealthy investors with an opportunity to reinforce their presence in markets in which they are not well represented. Granada's preferred option of selling to a single buyer raises the prospect of an interesting auction.

The industry is hoping for another good year although according to Mr Gates, the early signs are that business is not as buoyant as last year. He says: "1996 will undoubtedly prove a good year for hoteliers. They should not expect the phenomenal success of 1995 but trade will almost certainly surpass that of 1994." The international hotel industry by Graham Todd and Sue Mather is published by EIU, 15 Regent Street, London SW1Y 4LR, 1975

Region	Average number of rooms per hotel (1994 figures)	Average rate (1994 figures)	Average time per available room (1994 figures)
Europe	196	66.0%	\$101.39
Middle East	302	62.8%	\$96.67
US	219	70.4%	\$79.56
Asia-Pacific (1995 figures)	455	73.5%	\$109.78

Source: Parnell Kerr Forster Associates

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THE AMERICAN EXPRESS

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2 INTERNATIONAL HOTELS

US: by Lisa Bransten

Profits chase prices upwards

Rate increases rather than occupancy growth are pushing up profits

Two years ago a visiting colleague of Mr Bjorn Hanson had no trouble finding a place to stay for a business trip to New York. Last year, however, she had to pester the management at the same hotel until they found her a room. It cost her \$220 a night, nearly 60 per cent more than the year before.

That experience may have been frustrating, but for Mr Hanson, who heads the hospitality practice at Coopers & Lybrand, the US consulting

and accounting firm, it was hardly surprising. It is simply evidence of the sharp rise in occupancy and room rates that has helped the US hotel industry achieve record profits.

"The current state of the lodging industry is as favourable as it has ever been in the industry's history," he says. But he is quick to add that for all of the positive news of the past few years, the seeds of bad news are starting to grow.

In 1991, amid a sharp downturn in profitability, most of the industry's revenue growth came from rising occupancy. Now most of the profits growth comes from rate increases.

Last year the average room rate rose about 5 per cent to \$97.34, the second consecutive

year where rates rose more than inflation, according to Smith Travel Research.

Mr Hanson is wary of all the good news: "When we get to those sorts of rate increases that means we're about to peak," he says. "The period (since 1993) in which every year has been better than the prior year is nearing an end."

There are signs already that demand for rooms is decreasing, even as the industry goes on a building binge. In the first quarter of 1996, Smith Travel Research found that the percentage change in room growth exceeded the percentage change in demand for the first time since the company began keeping track of the figure in 1987.

An estimated 82,000 rooms were built last year, with a similar number coming on stream this year, marking a sharp rebound from 1993 when only 32,000 new rooms were built. All that new construction comes as demand growth is expected to slow to 2.6 per cent from 3.1 per cent.

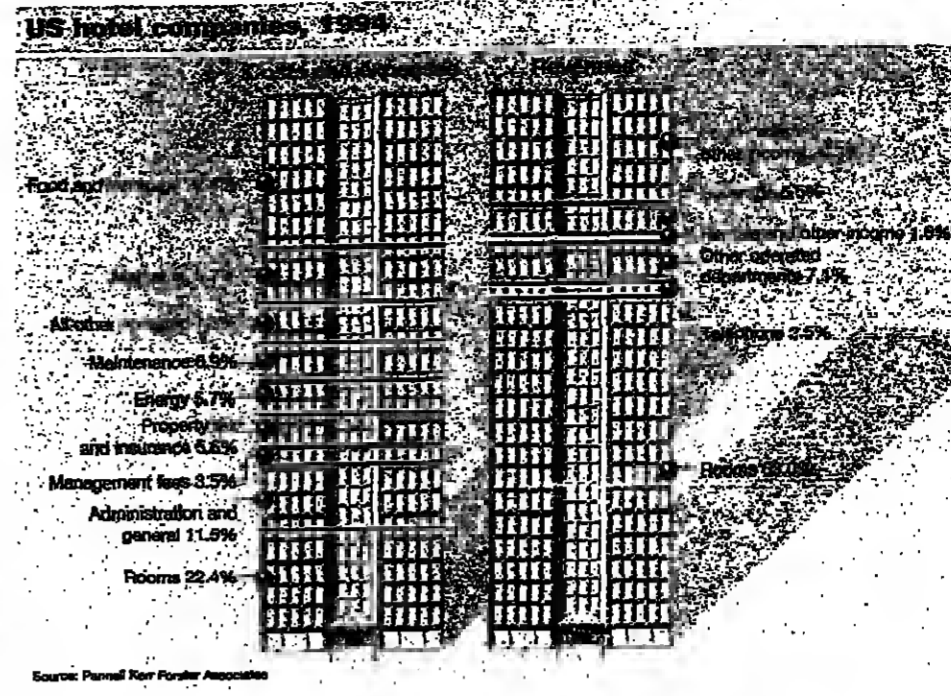
These sorts of statistics incite worries that the industry is entering another period like that from the middle of the 1980s to the early 1990s when it chalked up record losses.

But while the pace of earnings growth may slow, Mr Hanson says the industry is probably not about to start losing money. The bear years led to a period of restructuring among hotels that has made them

extremely efficient.

The occupancy rate most hotels must currently achieve in order to break even is about 63.3 per cent, the lowest it has ever been. That gives management room to undershoot last year's occupancy rate of 65.5 per cent and still make a profit.

Demographic trends are working in the industry's favour: the US economy continues to shift toward the service sector, which should create more business travel; the "baby boom" generation of Americans born in the 1950s are in their peak years for earning and travelling; and the weaker dollar has brought more foreign travellers to the US.



Europe: by Andrew Jack

The outlook is gloomy

The main preoccupation is filling rooms in old hotels, not building new ones

As the French city of Lyon prepares to host the Group of Seven summit of international heads of government in June, its hoteliers have something to celebrate. All their rooms are already full booked for the duration of the meeting.

It is a situation of which counterparts elsewhere in France are envious. Local politicians and business executives are meanwhile fighting to raise long-term capacity by trying to find an investor to back the construction of a new high-quality international hotel.

While there are some pockets of optimism around Europe - notably in the UK, Spain and Italy - much of the rest of the continent is struggling to maintain occupancy and room rates during a testing time for the tourism industry and for local economies.

property business.

Mr Heath says that the performance of the industry is largely a function of economic growth. Judging by recent downgraded estimates of 1996 growth by the leading continental European nations, prospects for the year are not very positive on this basis.

Mr Stanley Dixon, a director of Pannell Kerr Forster Associates, a consulting firm, says that one of the strongest markets at the moment is London. His latest estimates for higher quality hotels in the UK capital show levels of occupancy that are high and growing: 81.9 per cent in 1995, up 2.2 points on 1994. Average room rates rose

Two cities enjoyed booms in occupancy last year: London and Rome

10.8 per cent to nearly £112 in the same period.

"London is booming," he says. "It is short of stock, partly because of planning regulations and a lack of sites, and partly because of the business cycle. We are in the upswing." He adds that the relatively low value of sterling has helped boost the number of visitors from abroad.

Rome was another bright spot last year. Occupancy rose to 80.2 per cent, reflecting the weakness of the lire, and average rents were up 8.2 per cent



Rising high: Lyon's occupancy rate is higher than Paris's

to £215.196 (\$137). Equally, occupancy in Amsterdam rose 1.7 points to 71.6 per cent, with rates up 4 per cent to almost F1203 (\$123).

Things look bleaker elsewhere. Paris, affected by both the strong franc and boycotts by tourists objecting to its con-

troversial decision to restart nuclear testing in the South Pacific, suffered especially. Occupancy was at 63.5 per cent, down from 67.6 per cent in 1994, and average daily rates edged up by just 1.3 per cent to FF1,193 (\$238).

The difficulties of the slowdown in Germany have helped contribute to a 0.3 point decline in occupancy in Frankfurt to 69.4 per cent. In Lisbon occupancy fell 4.7 points to 56.3 per cent - tourists have preferred Portugal's beaches to its capital city.

Meanwhile analysts warn that interest in budget hotels is continuing to grow, a factor which means good business for developers at the bottom end of the market, but bad news for prospects of any short-term rise in room rates over the coming months.

Europe: occupancy and room rates

Country	Room occupancy (%)	Average achieved room rate (DM)
France	67.2%	284.08
Germany	61.7%	164.78
Italy	67.7%	159.02
Netherlands	66.4%	160.38
Portugal	58.7%	158.43
Spain	58.5%	212.99
Sweden	66.1%	165.61
Switzerland	65.8%	220.04
UK	69.8%	140.78

Source: Pannell Kerr Forster Associates

Asia: by Bethan Hutton

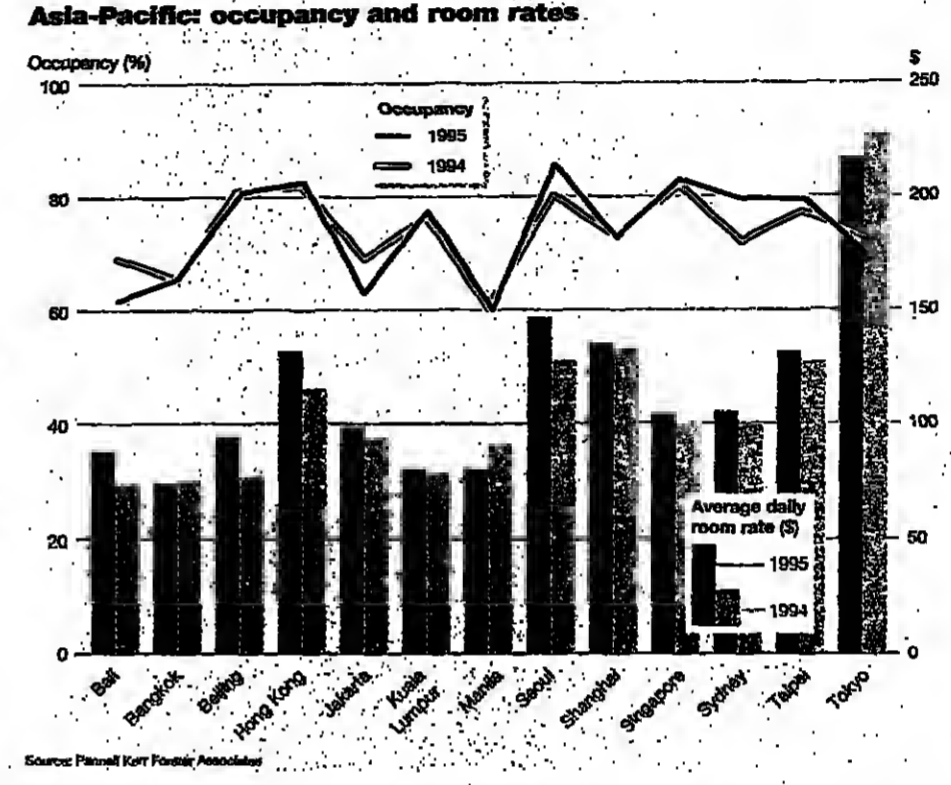
Demand outruns supply

Construction of new hotels cannot keep up with the demand for rooms in some countries

When the Hong Kong Hilton was demolished last year to make way for an office development, it sent shock waves through the colony's hotel industry. Hong Kong has always set the standard for hotels in the Asia-Pacific region: could this be a glimpse of a wider future trend?

So far, the answer seems to be No. Hong Kong may have lost its Hilton, but there are several other four and five-star hotels under construction. The Hilton group says that re-establishing its presence in Hong Kong is a priority. And throughout the region hotel rooms are proliferating at a breathtaking rate - though in some cases, not fast enough to cope with demand.

All the big international chains are expanding in Asia. Japan is the most sluggish market, and might be thought to have reached saturation point, but the Meriden group is opening a second hotel in Tokyo this year. Indonesia, Malaysia and Thailand are the sites of the most intensive development, both for inner-city business hotels and beach and island resorts.



India suffers from a severe shortage of top-class international hotels, particularly in New Delhi, where occupancy rates can exceed 100 per cent, but relief may be some time coming. Many of the large

international chains - including Hilton, Holiday Inn, and Marriott - have development ambitions for India, and the main local operators Taj, Oberoi and ITC are also expanding. But bureaucracy and a shortage of land in suitable locations are proving to be tough obstacles.

One new five-star hotel in New Delhi has been sitting completed but unoccupied for more than a year, while its owners grapple with the local

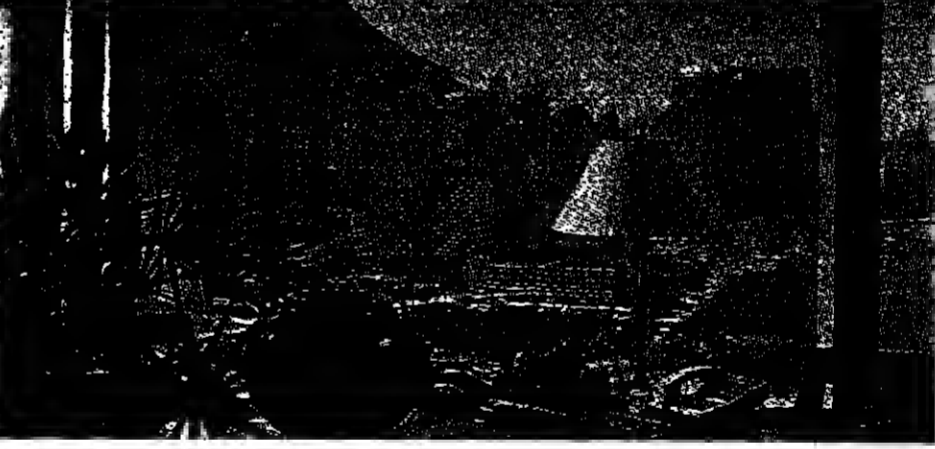
bureaucracy. Several international groups have found that an easier way into the Indian market is to link up with a local partner and redevelop existing hotels, sometimes under a co-branding arrangement.

Rapid economic progress in the Asia-Pacific region has spawned newly-affluent middle classes, who are developing a taste for tourism in their own back yard. Average incomes are not yet high

enough for them all to patronise Hiltons and Marriotts, but they are demanding higher standards and a more international focus than old-style local hotels can offer.

There is therefore an expanding market demand for internationally-oriented hotel chains offering reliable service at a two or three-star level.

Australia-based Accor Asia-Pacific, an offshoot of the French group best known for its Novotel and Sofitel brand names, is one group catering to this trend. The mid-range Novotel brand is its main focus, with 27 Novotels scheduled to open in 1996-98. Accor is also planning more developments within its more basic Ibis brand: nine Ibis hotels are due to open in Indonesia within the next two years, six in Thailand, and others in Malaysia and Vietnam.



Rising skyline: Hong Kong, seen here from the Grand Hyatt, is the site of several hotel construction projects

Another emerging trend at the other end of the price scale is the construction of smaller, European-style luxury boutique hotels, aimed at international travellers tired of the impersonality of the 500-room mega-hotels, but still demanding high standards of service and amenities.

Latin America: by David Pilling

Region shines again

The 1994 financial crisis caused only a temporary halt in construction of new hotels by developers

The Mexican devaluation of December 1994 has taken some of the shine off Latin America's economic transformation, but the region is still regarded as one of the most promising by the world's hoteliers.

"Most people see Latin America in general and certain markets in particular - such as Argentina, Brazil and Chile - as very exciting points of opportunity," says Mr Roger Titley, head of a Miami-based hospitality consultancy.

In the years before the 1994 devaluation, new hotels had begun to sprout up all over Latin America as developers sought to exploit the opportunities being created by the reform process. Continent-wide liberalisations and fast rates of real economic growth were attracting a flood of business travellers to the region.

Hotel chains which had previously associated Latin America with instability and protected markets were tempted to the region. In Buenos Aires, for example, quality new hotels such as the Hyatt, Cesar Park

and Intercontinental were built, competing at the top end of a market previously dominated by Sheraton.

Mexico's confidence-sapping devaluation stopped some hotel construction projects dead in their tracks, including two planned Sheraton hotels in Guadalajara and Monterrey. But in many other countries, with the notable exception of crisis-torn Venezuela, investment has carried on apace. Even markets that were previously of little interest to hoteliers, such as Cuba and Peru, have found favour.

Latin America's biggest economy, Brazil, which is tentatively emerging from years of chronic mismanagement and hyperinflation, is perhaps the greatest prize of all, both on the business and leisure fronts. Delegates to big conferences in Rio de Janeiro, for example, are often unable to book rooms in five-star hotels because they are fully reserved.

According to Mr Titley, Hilton, Intercontinental, Hyatt and Marriott International are all actively evaluating investments in Central and South America. Marriott is "already to strong expansion mode", with projects in countries as diverse as Ecuador and Argentina, he says.

The entry of new hotels into the market is improving qual-

ity, says Ms Patricia Acuña, a Buenos Aires-based businesswoman. Accommodation has generally lagged some way behind the standards of Europe and the US, although prices have if anything been higher. Some hotels are beginning to offer guests American-style services like free cellular phone use, or private fax machines, she says.

In Buenos Aires, new hotel construction has prompted ITT Sheraton to invest \$52m in upgrading its hotel there, adding a tower with 188 super-luxury guest rooms. In Santiago, Chile, the group is investing \$38m in an attempt to spruce up its rather dowdy hotel in the city and compete for attention with the popular Hyatt Regency.

If competition is hotting up at the top end of the market, it is also beginning to stir in more moderately priced accommodation. Apart-hotels, which offer the guests a basic kind of suite and cost around \$100 a night, are becoming much more popular, especially among longer-stay visitors. Here rooms are generally of a high quality, but dining-room and other facilities are much more limited.

Mr Titley says the next few years will see "a tremendous boom" in the mid-market segment, with the moderately priced Holiday Express (Holid-



Any rooms at the sur? Rio's hotels are sometimes fully booked

ay Inn), Four Points (ITT Sheraton) and Courtyard (Marriott) chains all involved.

He predicts that some 150 such hotels could be built over the next decade, not just in Latin American capitals, but in

the more important state and provincial cities too. Visitors to the region will be hoping the arrival of these chains will shake up the market still further, cutting room rates and improving service.

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■ Growth: by Scheherazade Daneshkhu

Ownership loses its appeal

Weak property prices mean that operators prefer franchises to new hotels

Growth is the watchword of the hotel industry. Most of the larger hotel chains are pursuing a policy of rapid expansion, keen to take advantage of expanding worldwide tourism and the recovery of business travel.

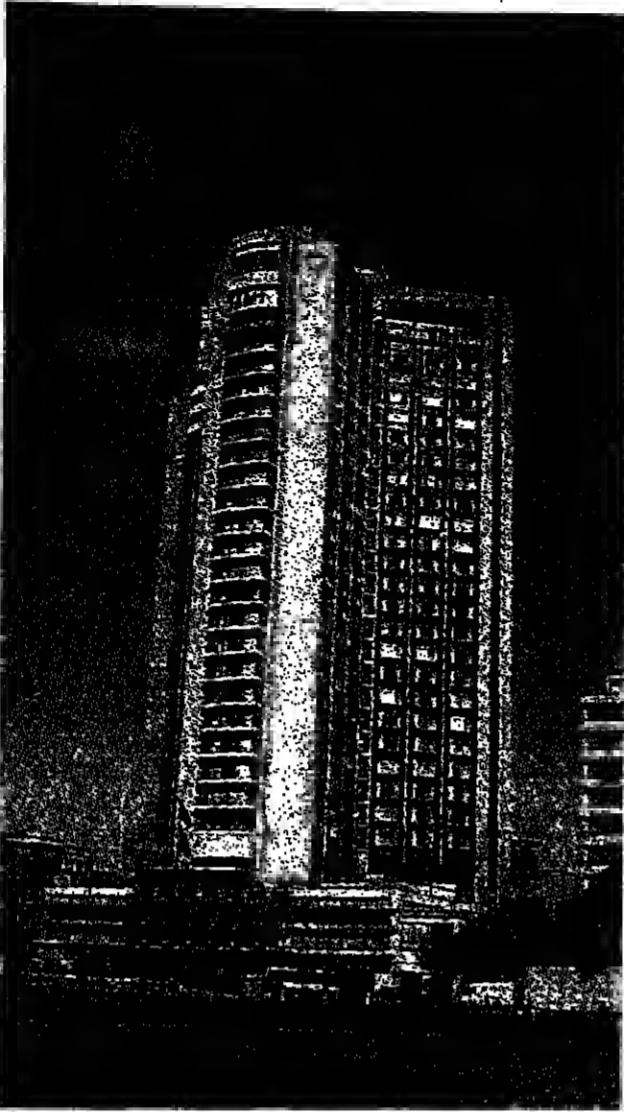
Some, however, have felt growth constraints. Property once used to be a hotel company's greatest asset and the principal motivation for investment. But a fall in the US and European property market at the end of the 1990s put financial burdens on hotel companies and restrictions on the management side of their operations.

When Marriott Corporation decided to split into two companies and to put its real estate and debt into one company (Host Marriott) and its hotel management into another company (Marriott International), it turned the spotlight on the value that can be gained by separating hotel management and property management skills.

Since the split in 1993 both companies - Host Marriott in particular - have outperformed the market. The experiment has fitted in perfectly with the current fashion for demerger whereby investors tend to value the parts of a company at more than the whole, partly because sharper focus is believed to enhance performance.

The split also gave Marriott Corporation more leverage in raising development money from shareholders, according to Mr Alex Kyriakidis, partner in charge of worldwide hospitality and leisure at Arthur Andersen, the accountancy firm. "Management, not ownership, is the cry - no one wants to own hotels, just to manage and franchise them and the ability to commit capital quickly is key to obtaining management contracts."

Other companies have also been ridding themselves of the property burden, not necessarily through demerger but by selling their property or tak-



Ladbroke has split property management from operations at Hilton hotels

ing a strategic decision not to buy any more property, relying on growth through management contracts or franchises instead.

Ladbroke, the hotels and betting company which owns Hilton International, last year split the property management of its hotels from the operational management to increase returns. "We are good at operating hotels but not good at managing the assets," said Mr Peter George, chief executive of Ladbroke, at the time.

Four Seasons, the luxury Toronto-based hotels group has also been pursuing property disposals. "From a purely

financial perspective, there has also been a definitive move towards the separation of the management and ownership of hotel assets with the goal of increasing shareholder value and reducing the volatility of hotel companies' income stream," says Mr John Richards, executive vice president of Four Seasons. "For several years now we have been engaged in an ongoing programme of asset sales geared towards reducing debt and, in conjunction with the globalisation of our portfolio of management contracts, at creating stable income stream."

Mr Paul Slatery, leisure ana-

lyst at Kleinwort Benson, investment bank says: "It's entirely understandable why the chains are looking for management contracts or franchises - they don't want to put their own capital in." Nor do they need to, says Mr Slatery. In most countries structured institutional sources of capital for hotel development do not exist in the same way as in the US or UK. Instead hotel investors are wealthy individuals or governments who wish to retain ownership but are not necessarily able to run a hotel.

Unlike a decade ago when there were fewer participants in the hotel management business, hotel owners today have a wider choice of groups from which to select. This competition is reflected in the contracts available. Instead of being granted 3 per cent of turnover and 10 per cent of gross operating profits, hotel management companies are having to settle for 2 per cent of turnover and 8 per cent of gross operating profit. In addition many are having to throw in something else, such as a small equity stake, or a commitment to finance the first refurbishment of the hotel.

Franchising has also become popular even with companies that had previously fought shy because of concerns about quality control. Several large companies, such as Choice Hotels International and Holiday Inn, have expanded rapidly through franchising.

Holiday Inn, which franchises or operates more than 2,000 hotels, aims to increase that number to 3,000 hotels by the end of 1998. In the past two years it has been developing hotels at what it calls "record-breaking pace" by opening a new hotel every other day.

Inter-Continental, while chary about franchising its core brand, does franchise some of its three and four-star hotels. Hilton International said for the first time last year that it wanted to franchise a new three-star Hilton brand. While the current trend toward franchising and management contracts can be expected to continue, it is also too soon to write off the asset-based hotel company which may, in due course, become fashionable again.

■ Trophy Hotels: by Scheherazade Daneshkhu

Glamour must pay its way

Purchasers of glamorous, historic hotels now expect them to yield a healthy financial return as well as social cachet

For some, owning a prize hotel, such as the Ritz in London or the Plaza in New York, is a cherished dream. The glamour and prestige of possessing historic properties which have been home, if only for a short time, to the famous can be alluring. But although dreams come cheap, prize hotels do not. And the trophy hotels, like Impressionist paintings, can be as susceptible to fashion and almost as difficult to price.

When the Sazale group, a Tokyo hotel company, bought the Bel-Air hotel in Beverly Hills, which has played host to movie stars such as Marilyn Monroe and Grace Kelly, it paid a record price in 1989 of \$110m, or crudely, \$1.2m for each of the hotel's 92 rooms. The sale came just a few years after Yasuda Fire and Marine, a Japanese insurance company, paid \$24.75m for Van Gogh's Sunflowers - then a record price for any work of art at auction.

But when the feel-good factor of the 1980s, fuelled by rising share and property values, fizzled out in the early 1990s, the price of seemingly useless desirables such as paintings and luxury hotels fell.

Sazale surrendered the property in 1994 to the Long-Term Credit Bank of Japan. Its creditor, which sold it last year to the Brunei royal family for about \$60m. To many the lesson is that trophy hotels are not for the true businessman and only for satisfying the whims of wealthy or flamboyant investors, such as Donald Trump, the Sultan of Brunei or Prince al Waleed bin Talal bin Abdulaziz al Sand, the Saudi investor.

Ms Kay Dymock disagrees. The lead partner of JLV Hotels, the specialist hotels division of Jones Lang Wootton, the property consultant, regards the term "trophy" hotel as verging on the derogatory. "For most of the 1980s there was a belief in a sector



What's in a name? - a lot, when it comes to trophy hotels. Tracey Humphrey

called trophy hotels where returns were minimal. I'm not sure the concept still exists in the 1990s," she says.

Many trophy hotel purchases were made by Japanese investors who were prepared to take low returns over a long period, she adds, but "in our experience investors today expect returns in excess of 7 per cent per annum".

It is not only individuals who buy trophy hotels, although many that do regard them as property plays, according to Mr Alex Kyriakidis, partner in charge of worldwide hospitality and leisure at Arthur Andersen, accountant. He points out that for some of the international chains a trophy hotel can enhance the value of a brand name and thus of a whole portfolio of hotels.

Inter-Continental staged something of a coup when it acquired the celebrated Carlton Hotel in Cannes, in the south of France, while ITT Sheraton bought a controlling stake in Ciga, the loss-making Italian hotel group in 1994 for \$355m. Most of Ciga's hotels, which include the prized Gritti

money from a collection of hotels which last reported a profit in 1985 and for which sceptics believe it paid too high a price. After reporting a sharp reduction in losses for the first half of 1995, Ciga is expected to make net profits this year.

With the gradual ebbing of the recession, demand for hotels at the luxury end of the market has revived, particularly in London and New York. Last year the Plaza Hotel, which overlooks Central Park in New York, was sold for more than \$300m to CDL Hotels, the Singapore-based group, and Prince al Waleed. Determining the worth of a trophy hotel is a challenge. Ms Dymock believes the method of valuation should be no different from that of other hotels. "The usual method is to look at the net cash flow and forecast what it will produce. The hotel is valued on its existing and projected income."

When the Ritz changed hands for \$75m last year from the troubled Trafalgar House conglomerate to David and Frederick Barclay, the property investors, some observers thought the price too high at \$275,000 a room. However, as one analyst pointed out: "What people forget is that the Ritz has shops, and more importantly, a casino paying just about the highest rent per square foot in London and producing an annual income of about £15m."



Fame games: hotels where stars like Monroe have stayed are prized. PA

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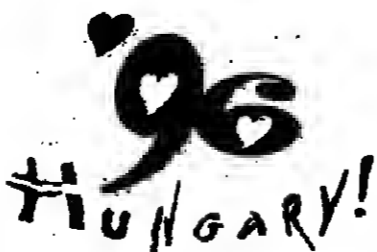


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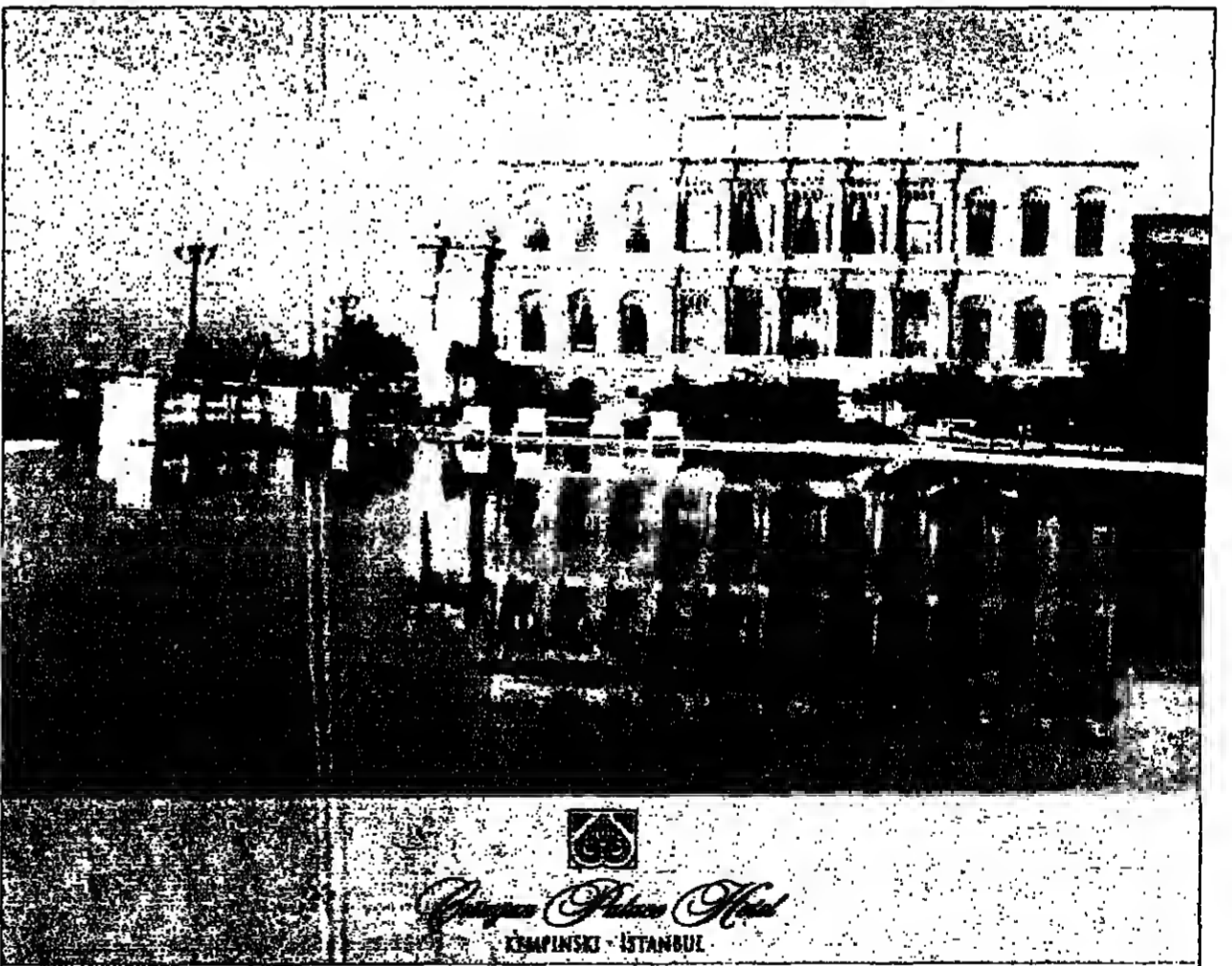
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Great expectations: members of loyalty programmes run by airlines and hotels expect to receive a range of perks as a matter of course

Loyalty programmes: by Roger Bray

Know your customer base

Databases detailing customers' foibles are helping hotel companies to retain their favour

One marketing anecdote tells of a group of executives trying to brainstorm ways of improving their airline's business class. They were so desperate to inch ahead of their rivals that they fell to discussing the number of brushes on the free inflight toothbrush.

Identify which of them spend the most and pander to their individual tastes. The cost-efficiency of loyalty programmes cannot be calculated without subtracting parallel savings on advertising.

"We found that 60 per cent of Americans staying at those prices in our European hotels had flown there using free tickets obtained through frequent flyer programmes," says Mr Michael Stajdel, senior vice president for marketing and strategic planning.

schemes can be immensely costly to launch and maintain. She concedes that the company, which has properties in eight countries besides Switzerland, has been investigating how to jump on the bandwagon.

US budget hotels: by Lisa Bransten

Low rates create high profits

No-frills lodgings can boost operators' returns, as well as saving guests' money. The formula has sparked a building boom

A building boom is under way in the US lodging industry. But only a small part of that growth is in the traditional full-service hotel sector.

to build and each room brings in \$69 per night. A luxury hotel, on the other hand costs nearly seven times that per room to build, while the rooms bring in only about \$150 per night.

the big hotel chains to get into a category where consumers were willing to settle for limited service in exchange for a cheaper rate.



Accommodation with all the trimmings: services like luxury restaurants create a big cost burden

Advertisement for The Landmark London. The headline reads 'AS INDIVIDUAL AS YOU ARE'. The ad features several circular images showing different parts of the hotel: a view from a window, a dining table, a room, and a bathroom. The text describes the hotel's individuality and service, stating 'It doesn't matter to us how you get here, as long as you feel you've arrived.'

Advertisement for The Sherry-Netherland. The headline reads 'After One Night At The Sherry-Netherland, You'll Never Want To Stay In A Hotel Again.' The ad features a large image of a classical-style chandelier and a smaller image of a woman in a dress. The text describes the hotel's amenities, including marble bathrooms, hand-loomed French carpets, and a library. It also mentions the hotel's location near Central Park and its history.

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6 INTERNATIONAL HOTELS

■ Airport Hotels: by Kate Bevan

Ugly, crowded and popular

Their convenient locations are the main reason why these hotels are enjoying a boom in business

There seem to be almost as many hotels at airports these days as there are airlines. Useful as stopovers, meeting points, or somewhere to billet airline crews, airport hotels are big business - so much so that Hogg Robinson, the UK business travel agent, counts London Heathrow as a separate city, ranked fourth in the UK by costs in its annual business travel survey of hotels.

But why choose such a venue? Airport hotels are often ugly concrete blocks, with thick double-glazing to dull the sound of roaring aircraft and views of nothing more exciting than the back end of a runway. Mr Mike Gates, director of central services at Hogg Robinson, points out some of the benefits. "They provide a 24-hour operation," he says, and adds that they are good venues for meetings. "Lots of people fly into Heathrow, have a meeting, and then fly back out again the same day. They never go into central London

at all," he remarks.

Airlines are among the biggest customers of airport hotels. Mr Alon Jones head of airline sales for Forte Crest, says that every night about 400 crew members stay at the Excelsior hotel at Heathrow alone, helping push occupancy rates up to an average of more than 90 per cent. "And they're there every day, including bank holidays and weekends," he adds. "During the week we can have up to 100 per cent occupancy."

Airlines also use airport hotels as part of their services. Virgin Atlantic, Mr Richard Branson's carrier, has an arrivals facility at the Holiday Inn Crowne Plaza at Heathrow. It ferries Upper Class passengers from the terminal to the hotel for a swim, massage and shower at the hotel's health club.

United, the US airline, has dayrooms at the Heathrow Forte Crest where arriving premium-class passengers can shower and change. United offers its passengers a special parking rate of £5 a day at the hotel and maintains a check-in desk there, available to passengers travelling in all classes. The American carrier also has similar facilities at airport hotels in Paris, Milan, Amster-

dam, Brussels and Zurich.

Although there are had points to airline business - "Crews don't spend any money in the restaurant," remarks one executive - the plus is that they are the first places that carriers turn to in an emergency. "We get the spin-off business if there's a delay," says Mr Jones.

This means that a 747-load of disgruntled passengers corralled into a hotel to await a delayed flight are a captive market. Although passengers will be given vouchers for a certain amount of refreshment, inevitably they end up spending more in the bars and restaurants.

And if a flight delay means putting up the passengers overnight, the first port of call for the airline is the hotel where they billet their crews, although at this point, hotels will co-operate to find beds if the first hotel's capacity is not sufficient.

From the leisure travel industry's point of view, airport hotels are a good thing. "The growth is tremendous," says Mr Nick Cust, joint managing director of Superbreak. "It extends a holiday to have a night either side of a flight at an airport hotel." And there is another benefit for leisure trav-

ellers who do not have an employer picking up the airport parking costs. Superbreak offers a rate of £42 per person per night at the Marriot Heathrow - which includes 15 days' free parking.

Decent transport links are a bonus. Most hotels run regular courtesy buses to airport terminals and in many cities rail or road links are good.

It is not only travellers who use airport hotels - many local businesses use them as venues for meetings and conferences. The Forte Crest at Heathrow has a dedicated facility of fully-equipped meetings suites - the Academy - catering for that market.

But in spite of the benefits, airport hotels have drawbacks. Mr Gates of Hogg Robinson highlights the impersonal ambience of hotels which have to cater for so many different markets. These "bed factories", as he puts it, are dealing with leisure and business travellers, people attending meetings and conferences, arriving passengers using airline facilities, and mobs of aircrew.

As airport hotels also pick up local business, they are under pressure to deliver the goods for several different markets. The danger is that the hotels become impersonal pro-



Gatwick in the UK: the convenience of hotels close to airports compensates for their high prices and impersonal atmosphere

Tony Andrews

viders with no special niche services to offer.

High occupancy rates can mean high prices for the traveller. Hotels at Heathrow have lifted their rates by 8.87 per cent over the past year, according to Hogg Robinson, to an average of £75.46 a night.

And airport hotels can be very crowded. While the growing occupancy rates delight the hearts of general managers

and their parent companies, a negative aspect is the sheer numbers of people wanting to eat, drink, and check out at the same time.

"I can't see why people don't do a bit more research on the area near the airport and pick a nice country hotel in, say, Ascot, for their meeting," remarks one executive. "It doesn't take much more time to whizz down the M4 and get

away from the airport hotels at Heathrow to something much nicer."

Although hotels provide links to the airport, these can sometimes be a problem, too. Courtesy coaches often wait for a decent number of passengers before they depart, and can be held up while dozens of people check out and aim for the same flight. And some, while offering a free pick-up,

charge a fee for a trip to the terminal.

But the transport links are adequate, at least from the industry's point of view. "The M25 is the best thing that has ever happened to airport hotels," says Mr Cust. "If you've got an 8am flight at Gatwick, when do you leave if you want to avoid the rush-hour traffic jams? The night before, of course."

■ Conference hotels: by Roger Bray

Trips must be justifiable

Attendances are up but organisers must convince directors that such events have a genuine value

Recession has left its scars on the conference and incentive travel business. Business has returned since the slump accompanying the Gulf War, but participants have still to regain their confidence.

Nobody knows how much meetings, conferences and incentive trips organised by big companies are worth to the international hotel business. Mr Charles Blowfield, commercial director of the Meetings Industry Association, thinks it could be over \$100bn, but admits this figure is plucked from the air. Figures from the US suggest it could be as high as \$63bn in North America alone. Some observers believe current growth could be as high as 15 per cent a year.

Attendances are up. Delegates are staying longer at hotels and gatherings are more frequent, but groups are becoming smaller. Events are being organised at much shorter notice, making it more difficult for hotel managers to plan ahead. Lead times have fallen from between a year and six months to less than four months.

During the recession it was difficult for directors to sanction expenditure on glamorous international meetings while they were cutting staff. Even though the economic climate has now improved, events must still be seen to produce clear benefits.

Conferences have become more focused as a result. A good example was the recent Association of British Travel Agents convention in Sun City, South Africa. Tour operators, punch-drunk from a summer of discounting, were slimming their workforces. The turn-out was much lower than those seen at similar long-haul jamborees in the 1980s, the content of sessions spittier.

Incentive trips, an area dominated by five-star hotels, were also scaled down during the recession. Convincing companies that the trips can have a galvanising impact on sales forces remains tough.

That is not to say participants do not still enjoy themselves. Among this year's big winners of International Travel and Meetings Association (ITMA) awards were a scheme for Philips Lighting which took wholesalers on a snowy winter trip to Toronto's Deerhurst Resort, and another which took BMW sales managers to Africa.

Hotel groups expect conference organisers to demand ever more sophisticated technology, allowing delegates to react to presentations from the floor, for example, expressing preferences or casting votes at the touch of a button.

"In the old days," says Ms Sarah Webster, ITMA's executive director, "a guy used to stand up and lecture. Now new technology lets them gauge the opinions of the audience and show instant graphs on a screen."

Organisers are already able to explore meetings and conference rooms on their computer screens. Hilton International recently launched a CD-Rom which shows them detail such as the location of power points.

Perversely, increased reliance on PCs could be stimulating demand for human contact rather than diluting it, says Ms Webster: "There was always a fear that videoconferencing would reduce the need for people to leave their offices. While the area has expanded there is also an acknowledgement of how much can be achieved by a group talking together."

This year's hot conference destinations include Barcelona, Portugal, Prague and Budapest - and South Africa, though it remains short of suitable hotels. But following the breakdown of the IRA ceasefire, a new question mark hangs over London's prospects as a destination for incentive conferences and trips.

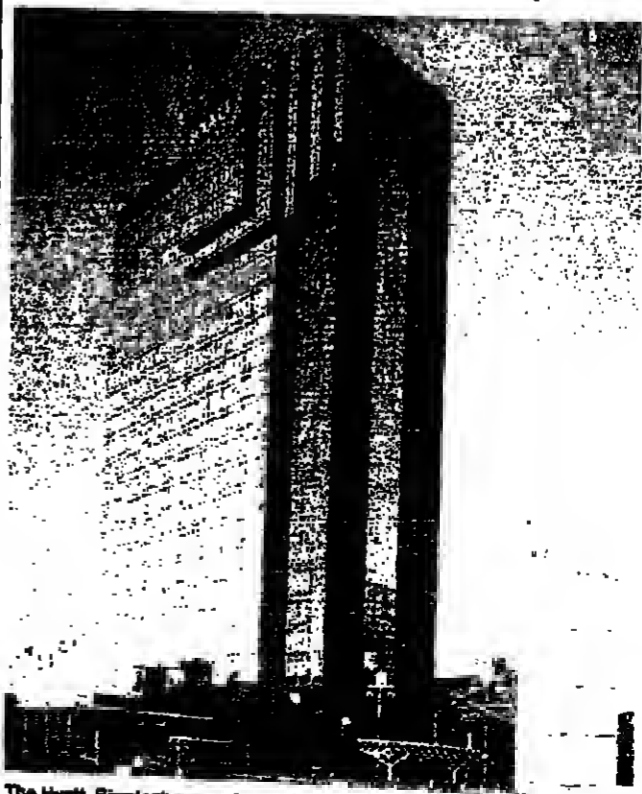
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The Hyatt, Birmingham: real conferences have survived videoconferencing

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